State of Montana

Office of the Legislative Auditor

REPORT TO THE LEGISLATURE

Audit
Fiscal Year Ended June 30, 1979

DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES

- The relative responsibility statute is not enforced by the department. This statute requires the department to collect a portion of certain assistance costs from recipients' relatives.
- The Department did not accrue an estimated $6,236,000 in Medicaid expenditures for services provided but not billed by June 30, 1979. Failure to accrue these expenditures understates accrued support expenditures by $2,432,000 and $3,804,000 for the General fund and the Federal and Private Grant Clearance Fund respectively.
- The audits of nursing homes conducted by the department's Audit Bureau did not meet established professional standards. Major effort is required to upgrade the quality of these audits.
- The report presents a total of 47 recommendations for improvements in these and other areas of the department's operation.

Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59601

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STATE OF MONTANA

Office of the Legislative Auditor

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The Legislative Audit Committee
of the Montana State Legislature:

This report details the results of our audit of the Montana Department of Social and Rehabilitation Services. A brief description of the highlights of the report follows.

The department is required by Montana Law to collect certain assistance costs from recipients' responsible relatives. In two previous audit reports we recommended that the department enforce relative responsibility requirements. However, the department is still not complying with the law. Department officials stated that they are drafting legislation to repeal this statute. This problem is discussed beginning on page 8. The department's response in on page 122.

The department did not properly accrue an estimated $6.2 million in Medicaid expenditures for services provided but not billed by June 30, 1979. The failure to accrue these expenditures understates accrued support expenditures as reported on the June 30, 1979 Balance Sheet by $2.4 million and $3.8 million for the General Fund and the Federal and Private Grant Clearance Fund, respectively.

The approximate $2.4 million understatement in General Fund accrued support expenditures overstates the General Fund balance amount certified by the Department of Administration to the Department of Revenue to comply with the requirements of the Montana Property and Income Tax Relief Act. However, the General Fund balance certified at June 30, 1979 could not be changed to recognize the unaccrued support expenditures because SRS could not legally overexpend its appropriation. See page 20 for a discussion of this problem and page 124 for the department's response.

The SRS Audit Bureau performs reimburseable cost audits of nursing home cost reports. We reviewed the Audit Bureau's working papers for a sample of nursing homes. Based on the results of these reviews, we could not rely on the audits completed by the Audit

Bureau to determine the reasonableness of the reimbursement rates paid. See page 24 for a discussion of the problem and page 124 for the department's response.

Since we could not rely on the audits completed by the Audit Bureau, it was necessary for us to perform a reimburseable cost audit on a sample of nursing homes. The most prevalent problems noted in our audits related to fixed assets and depreciation, vehicles, interest, owner's compensation, professional service expenses, and patient census records. See page 28 for a discussion of these problems and page 125 for the department's response.

SRS provides rehabilitation services to promote the restoration of Montanans having physical or mental disabilities resulting in employment handicaps. In our review we found that 27% of Rehabilitative Services Division clients tested for income eligibility did not have adequate up-to-date financial studies documented in their case file.

We found instances where SRS paid for training when the clients had adequate personal resources. Training services are excluded by law from the requirements for financial need determinations and must be provided without such determinations. To obtain the authority to require clients with financial resources to pay for their training, SRS should propose legislation changing the statutes to include training as a service requiring financial need determination.

Other problems found with rehabilitative services were with counselor caseloads, title retention agreements, Individual Written Rehabilitation Plans, case management, case closures, maintenance payments, and rehabilitation goals. See page 37 for a discussion of these problems and pages 128-130 for the department's response.

SRS contracted with nonprofit corporations to provide services to developmentally disabled persons. Our testing included agreeing monthly financial reports submitted to SRS to provider records. We found providers with inadequate property records, unallowable depreciation claimed and problems with client attendance records. One provider had significant bookkeeping problems and one unauditable program. Without proper documentation SRS cannot determine whether the services paid for are being provided. With assistance from SRS we found that the former director of a provider received over $4,000 in salary for two months he did not work. See page 60 for a discussion of these problems and page 131-133 for the department's response.

SRS requires that all possible sources of financial support for foster children be explored and obtained to apply towards the cost of the child's care. In 39% of foster care files reviewed, we found no documentation of financial resource studies. We also noted that foster care files lack required documentation to provide assurance that SRS policies and procedures are actually followed.

See page 68 for a discussion of these problems and page 135 for the department's response.

SRS allows family planning services to use the declaration method in determining a client's income eligibility. The declaration method uses an individual's statements about family gross monthly income and the income maintenance status of family members. SRS does not verify the applicant's income. Thirty percent of the case files reviewed did not include sufficient information to determine if these individuals meet income eligibility requirements. SRS should obtain each applicant's authorization to verify his income through Department of Revenue tax records. See page 78 for a discussion of these problems and page 137 for the department's response.

In reviewing aging services programs we found some providers with inadequate or no property records, unrecorded transactions, inadequate records to support monthly financial statements, and one provider with unauditable records. See page 82 for discussion of these problems and page 139 for the department's response.

The deferred accounts receivable account is used to record overpayments to recipients in the food stamp, Medicaid, and AFDC programs. There are significant control weaknesses over this account because of inadequate recording, billing, and account aging procedures. See page 89 for a discussion of these problems and page 143 for the department's response.

The reports relating to our fiscal year 1975-76 audit of the department contained 359 recommendations. The department has shown considerable effort in implementing our recommendations. The department has implemented 196 recommendations, partially implemented 38 and has not implemented 61. Nineteen recommendations are no longer applicable and 45 were not tested during the most recent audit. See pages 95 and 96 for further statistics on agency action.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, CPA
Legislative Auditor

APPOINTIVE AND ADMINISTRATIVE OFFICIALS

DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES

Jon Meredith	Acting Director
Phil Gouviea	Administrator, Audit and Program Compliance Division
Ronald K. Brown	Administrator, Centralized Services Division
Edward J. Malensek	Administrator, Community Services Division
Peggy Fields	Administrator, Developmental Disabilities Division
Jack R. Carlson	Administrator, Economic Assistance Division
W. R. Donaldson	Administrator, Rehabilitative Services Division
David W. Armstrong, Jr.	Administrator, Veterans' Affairs Division
Joseph A. Baumgardner	Administrator, Visual Services Division

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full replies of the Department of Social and Rehabilitation Services, Hancock/Dikewood Services, Inc., and the Montana Foundation for Medical Care are included in the back of this report.

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3.A.3. Require the Montana Foundation for Medical Care to provide the contracted services which include providing meaingful utilization review reports. 19

Agency Reply: Concur. See page 123.

Montana Foundation for Medical Care Reply: See page 148.

3.B. Monitor the provisions of its contract with the Montana Foundation for Medical Care. 19

Agency Reply: Concur. See page 123.

4. Establish and implement a method of followup on eligibility errors found by its Program Integrity Bureau to ensure that corrective action is taken by the counties. 20

Agency Reply: Concur. See page 124.

5.A. Accrue Medicaid expenditures in accordance with generally accepted accounting principles and state accounting policy. 24

Agency Reply: Conditionally Concur. See page 124.

5.B. Seek a one-time legislative appropriation to allow for the proper accrual of Medicaid expenditures. 24

Agency Reply: Concur. See page 124.

6. Perform audits of nursing home providers in accordance with generally accepted auditing standards, including the AICPA Industry Audit Guide, Medicare Audit Guide. 27

Agency Reply: Concur. See page 124.

SUMMARY OF RECOMMENDATIONS (Continued)

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19.B. Determine that clients are capable of meeting training goals.	55
Agency Reply: Concur. See page 130.	
20.A. Closely monitor differences in program unit costs.	59
Agency Reply: Concur. See page 131.	
20.B. Review regional requirements and provider contracts to identify and eliminate duplications in services.	59
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21. Correct the contract process weaknesses described above.	60
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Agency Reply: Concur. See page 132.	
22.B. Develop minimum criteria for client attendance records.	62
Agency Reply: Concur. See page 132.	
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Agency Reply: Concur. See page 132.	
23. Include a contract provision requiring department approval of transactions between providers and related parties.	62
Agency Reply: Concur. See page 133	

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24. Disallow providers' employees bonuses unless they are included in employment contracts and DDD provider contracts.	63
Agency Reply: Concur. See page 133.	
25. Develop standard criteria for providers to use when accounting for client funds.	64
Agency Reply: Concur. See page 133.	
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27. Establish procedures to enable timely licensing of group homes.	65
Agency Reply: Concur. See page 134.	
28.A. Require supervisory review and approval of eligibility determinations.	67
Agency Reply: Do not concur. See page 134.	
28.B. Ensure that counties comply with federal regulations concerning redetermination of eligibility.	67
Agency Reply: Concur. See page 134.	
28.C. Require counties to determine eligibility of child and family services cases.	67
Agency Reply: Do not concur. See page 135.	
29. Develop a standard form to enable social workers to make a proper financial investigation and to assure adequate disclosure of financial resources available to pay for a foster child's care.	69
Agency Reply: Concur. See page 135.	

SUMMARY OF RECOMMENDATIONS (Continued)

INTRODUCTION

We performed a financial/compliance audit of the Department of Social and Rehabilitation Services (SRS) for the fiscal year ended June 30, 1979. The objectives of the audit were to: (1) determine if the department's financial statements present fairly its financial position for the fiscal year ended June 30, 1979, (2) determine if the department complied with applicable laws and regulations, and (3) make recommendations for improvement in the management and internal controls of the department.

We thank the director and his staff for their cooperation and assistance during our audit.

BACKGROUND

The Department of Social and Rehabilitation Services was created in its present form by the Executive Reorganization Act of 1971. SRS reported fiscal year 1978-79 expenditures of approximately $111 million. Administrative costs, such as payroll and operating expense, were $19 million. The remaining $92 million was spent on aid to recipients under a variety of SRS programs. Following is a brief introduction to the programs and services provided by SRS:

<u>Aging Services Program</u> - provides employment, nutrition, and social and recreation services for Montana's elderly.

Medical Assistance Program - administers Medicaid, which is federally sponsored assistance for medical services for needy individuals and families.

Assistance Payment Program - provides for the day-to-day living expenses of needy Montanans. This is achieved through Aid to Families with Dependent Children, general and emergency assistance payments, and the Food Stamp Program.

Youth Development Program - plans, evaluates and develops community programs for youth. The purpose of these programs is the prevention of delinquency and child abuse and neglect, as well as the reduction of youth in need of supervision.

Developmental Disabilities Program - provides for the care and treatment of the developmentally disabled. It seeks to enable clients to live as independently as possible and to prevent inappropriate institutionalization.

Developmental Disabilities Planning and Advisory Council - develops plans for a statewide system of community-based services for the developmentally disabled. Advises the Governor, state and local governments, and private organizations on developmental disabilities programs.

Social Services Program - provides eligible persons those services necessary to increase personal and economic independence. In addition, the bureau is responsible for preventing the abuse and neglect of children and adults unable to protect their own interests.

Veterans Affairs Program - provides for services to eligible veterans, their relatives and beneficiaries. It is attached to SRS for administrative purposes only.

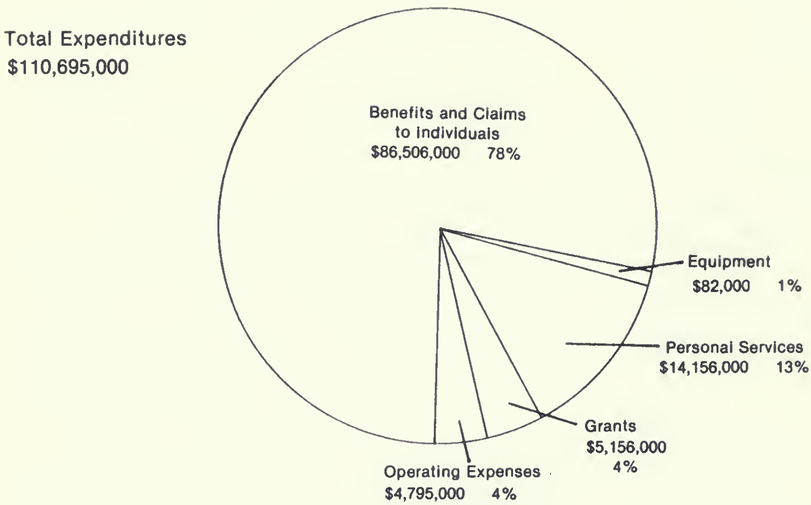
Visual Services Program - provides services to the blind and visually impaired, to enable more independent living and to allow clients to enter the job market.

Vocational Rehabilitation Program - rehabilitates persons with employment handicaps. It provides evaluation, counseling, and vocational training for those who can reasonably be expected to benefit.

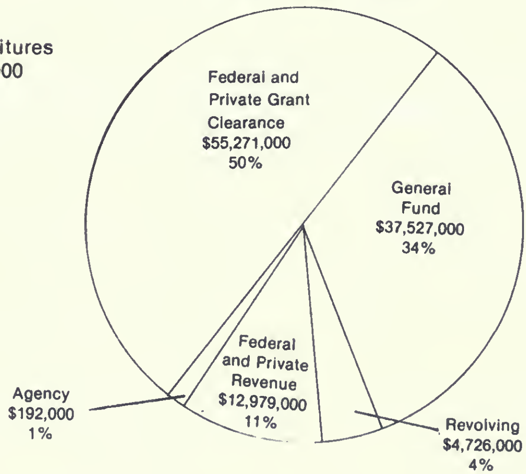
In addition to the above, SRS has an Administrative and Supportive Services Program, an Eligibility Determination Program, and a Disability Determination Program.

The following charts illustrate the nature of the department's expenditures and the sources of revenue.

TYPE OF EXPENDITURE

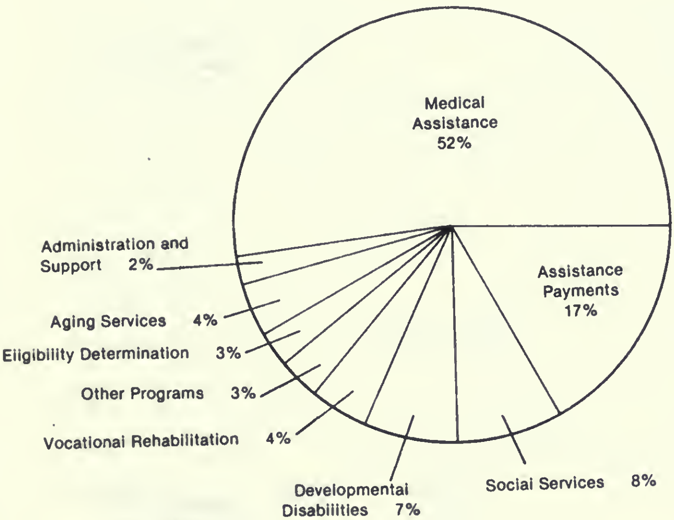


Expenditures By Fund



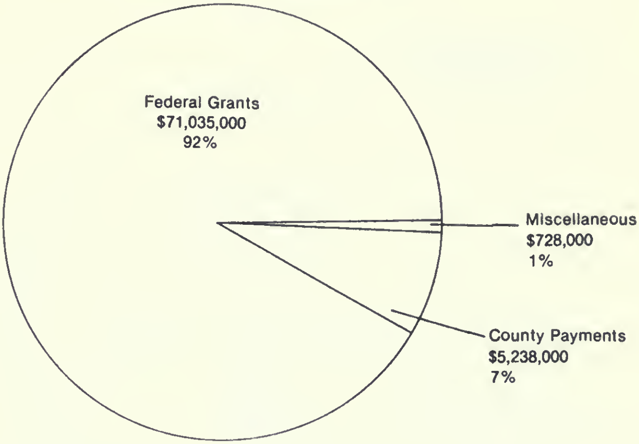
EXPENDITURES BY PROGRAM

Total Expenditures
$110,695,000



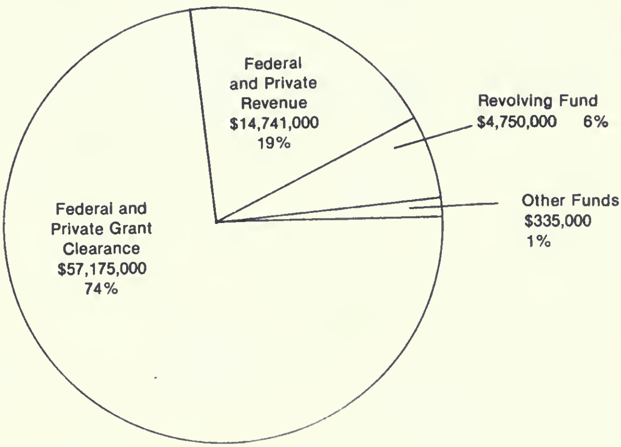
TYPE OF REVENUE

Total Revenue
$77,001,000



Revenue by Fund

Total Revenue
$77,001,000



INTERNAL CONTROL

As part of our examination, we made a study and evaluation of the department's system of internal accounting control to establish a basis for reliance thereon in determining the nature, timing, and extent of other auditing procedures necessary for expressing an opinion on the financial statements and to assist in planning and performing our examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

Our examination would not necessarily disclose all weaknesses in the system of internal accounting control because it was based upon selective tests of accounting records and related data. Our tests did not disclose any material weaknesses in internal control. However, those internal control weaknesses identified during the audit and which warrant management's attention are described in various sections of this report.

ECONOMIC ASSISTANCE

The SRS Economic Assistance Division, responsible for providing a standard of living for decency and health for needy individuals, regulates and administers the following financial assistance programs:

--Medical Assistance;

--Aid to Families with Dependent Children; and,

--Food Supplementation Services.

During our audit period, the division also administered the Non-resident General Assistance Program.

We conducted an audit of the above mentioned programs, with the exception of the Food Supplementation Services Program. This program is periodically audited by federal agencies and was thoroughly reviewed in the prior audit by this office. We reviewed the program's implementation of prior audit recommendations. As indicated in footnote 6 to the financial statements, food stamps are assets of the federal government. Therefore, they are excluded from the SRS balance sheet.

Relative Responsibility

SRS is required by section 53-2-403, MCA, 1979, to collect a portion of assistance costs, excluding medical, from recipients' responsible relatives, including husband, wife, father, mother, son or daughter. The relatives' contribution scale, which holds responsible relatives jointly and severally liable, ranges up to a maximum monthly payment of $144.

Our SRS audit report issued in May 1972 recommended that SRS enforce the relative responsibility laws and regulations. In response, SRS sought repeal of the relative responsibility statute. The 43rd Legislature did not repeal the law; rather, it gave SRS access to Department of Revenue records to enable a more thorough investigation of cases. The legislature also increased the dollar amounts on the contribution schedule for relative responsibility.

Our SRS audit report issued in 1978 again recommended that the department enforce relative responsibility requirements. However, the department is still not complying with the law.

SRS officials believe it would cost more to enforce the statute than can be collected from relatives. SRS can bill the responsible relatives for their share of the payments, but they have no assurance that the relatives will make payment.

An SRS official stated that they receive a large number of protests from individuals who have been asked to supply financial information as part of a relative's assistance application. These individuals believe that SRS is overusing its authority. They will not supply information or contribute to the relative on assistance. SRS officials believe the law, as administered, punishes the cooperating relatives by requiring them to make payments when nothing can be done to people refusing to cooperate. In addition, SRS claims that county attorneys hesitate to prosecute these cases, even though they are required to by law.

SRS officials stated that they are drafting legislation to repeal this statute. However, until such legislation is enacted, SRS should require responsible relatives to make payments in accordance with state law.

RECOMMENDATION #1

We recommend that SRS comply with the relative responsibility statute.

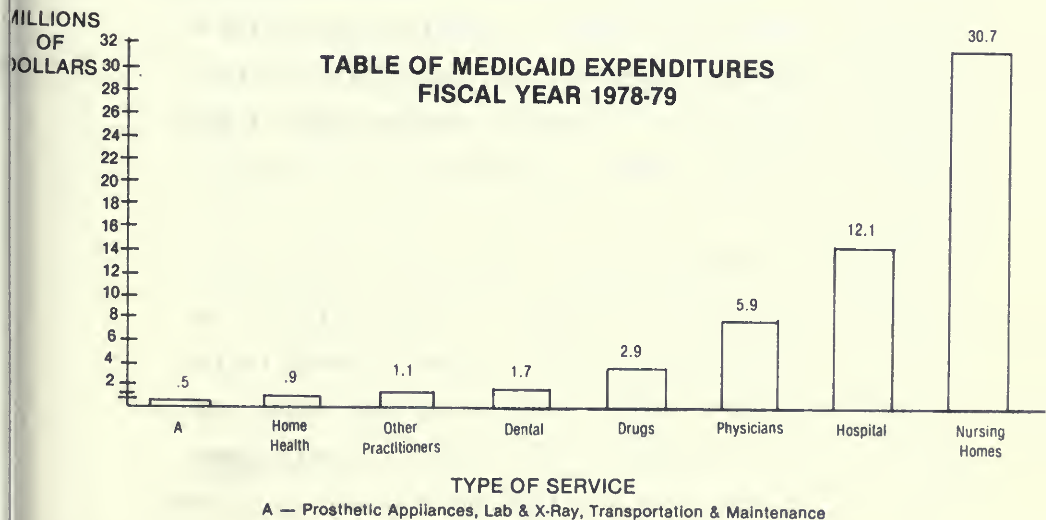
MEDICAL ASSISTANCE PROGRAM

Background

The Medical Assistance Program administers Medicaid, a federally sponsored assistance program. Medicaid provides medical services 1) to families with dependent children who qualify for monetary assistance; 2) to families and individuals who do not qualify for monetary assistance but whose income and resources are insufficient to meet their medical costs; and 3) to persons who receive Supplemental Security Income (SSI).

The Medical Assistance Bureau carries out the day-to-day operations of the program. The bureau operates in 1) the state office in Helena, which creates and disseminates policy according to state law and federal regulations; and 2) the county offices, which determine eligibility and provide consultation to clients.

Expenditures for the Medical Assistance Bureau in fiscal year 1978-79 were $57,903,416. Of this amount $55,781,477 was spent for Medicaid payments to providers for services provided to eligible individuals and families. Medicaid payments have increased 65 percent over the last four years. The increase is largely attributable to the overall increase in the cost per service. The largest increase in cost per



service has been in the services provided by the nursing homes. These costs represent approximately 50 percent of total Medicaid expenditures. The number of services rendered to Medicaid recipients has grown, but by a modest amount, and the number of Medicaid recipients has stayed constant.

Medicaid Claims Processing

SRS contracts with fiscal intermediaries, the Dikewood Corporation of Albuquerque, New Mexico, and the Montana Foundation for Medical Care (MFMC) to approve and process Medicaid claims. The Dikewood Corporation contract provides a claims processing system whereby claims submitted by Medicaid providers are input and processed and produce state warrants being issued to the providers. The MFMC contract provides review services for Medicaid claims submitted by providers, with the exception of drug and nursing home claims. Dikewood Corporation's Great Falls office codes and screens drug claims and reviews nursing home claims to insure payment according to predetermined rates.

After a Medicaid client receives services from a provider, the provider submits a claim directly to Dikewood Corporation's Montana office in Great Falls. Dikewood does the initial processing and sends the claim (with the exception of a drug or nursing home claim) to the Montana Foundation for Medical Care. The foundation codes and screens the medical or dental services billed and approves the claim for payment. The claim is then returned to Dikewood for completion of processing and payment.

We performed a service center review at Dikewood Corporation and the MFMC and identified the following problems in the Medicaid claims processing system.

Dikewood Corporation

We reviewed the controls in existence at Dikewood Corporation's Great Falls office and at the computer center in Albuquerque, New Mexico. The service center review was to determine whether the facilities maintained adequate data processing controls, including hardware/software, library files, computer operation, organization, and physical security controls. Although we determined that overall controls at Dikewood are adequate, we noted the following problems.

The Dikewood Corporation has not had an application review completed on the Medicaid claims processing system. Application reviews are performed on computer systems by independent auditors to analyze the controls in the processing system and to aid in determining the reliability of results of processing. In conjunction with an application review, a service center review should be conducted to test the internal processing function. The SRS contract with the intermediary should specify that an application review and a service center review be completed on the Medicaid claims processing system at least once during each contract period. These reviews would give SRS an independent opinion as to the reasonableness of the Medicaid payments processed by the service center processing system.

Dikewood procedures for segregating the functions of computer operators from computer programmers are not formalized. We noted that during non-business hours, programmers have access to the computer room and may operate the computer. These functions should be segregated. Such separation reduces the possibility of personnel with detailed systems knowledge manipulating the normal processing.

Access to the computer room is not controlled and in one instance we noted at least five employees gathered around the computer operator's desk. Controlled access to the computer room should be a priority in a computer service facility to reduce the possibility of unauthorized use of the computer.

Program documentation of the Medicaid system is not complete. Program changes are documented within the program but are not always documented outside of the program. Because of this documentation technique, the program development trail may be nonexistent or hard to follow. It may be difficult for a new programmer to understand the development of the program.

Proper documentation is an integral part of a computer system.

Dikewood maintains a back-up tape system for the Montana Medicaid system. The tape system consists of "save tapes" which are run weekly and contain the data on file at the end of the week. These tapes are stored in a fireproof vault at the Dikewood computer facility. Dikewood does not maintain an off-site back-up system, which is an important safeguard in a computer system.

Claims submitted by Medicaid providers are subject to several computer edits after their initial input into the Medicaid claims processing system. Claims which do not satisfy specific criteria are output on a "problem list." These lists are sent to Dikewood's Great Falls office from Albuquerque on a periodic basis. Any of the listed claims that can be corrected by Dikewood's Great Falls personnel are resubmitted for processing. The problem lists are then sent to the MFMC for review and correction of the remaining claims. The list is returned to Great Falls where it is shredded. No copy of the problem list is kept by either Dikewood or the foundation. We could not test the year's lists to be assured that claims with errors were corrected. We were able to test only the lists produced while we were at the foundation offices.

RECOMMENDATION #2

We recommend that SRS require the fiscal intermediary to:

A. Have a formal, independent service center review and an application review completed on the Medicaid claims processing system.

B. Establish a strict segregation of functions between computer operators and computer programmers.

C. Establish controlled access to the computer room limiting access to those employees who are necessary for operating the computer.

D. Maintain adequate documentation for the programs in the Medicaid system.

E. Provide an off-site back-up tape system for the Medicaid system.

F. Maintain a copy of the problem lists for proper audit trail.

Montana Foundation for Medical Care

SRS contracts with the Montana Foundation for Medical Care to provide 1) authorization of services for specific types of therapy and transportation; 2) a system of prior authorization for transportation, physical therapy, and other specific procedure codes on claims; 3) all necessary claims coding; 4) a system of peer review; and 5) a system of utilization review of all Medicaid claims received. In our tests of the foundation's procedures for providing services, we identified the following problems.

--Claims Coding and Screening

A problem list from Dikewood is periodically submitted to the foundation for correction of coding errors. If the error results from a coding problem, the foundation has the authority to override computer edits.

In our sample testing of 108 items we found 28 instances where the foundation had overridden a coding error. These overrides resulted in payments to providers greater than the amount allowed by Medicaid for the services provided. Personnel at the foundation stated that the coding errors were not corrected when they were made by the provider and not the foundation employee coding the claim. All coding errors should be properly corrected before payment.

--Peer Review

Procedure codes that do not have an assigned unit value in the Montana Medical Association Relative Value Schedule are listed as "by report." These procedures are too unusual, variable or new to be assigned a unit value. The foundation reviews each "by report" claim for reasonableness. Questionable claims are submitted to a peer review physician for screening and approval. If payment is approved for the procedure the provider is paid 94.6 percent of the amount billed.

Personnel at the foundation informed us that claims containing "by report" procedures where the amount billed was greater than $150 (a foundation standard) are subject to the foundation's peer review process. Our testing included a review of claims containing one of six specific "by report" procedure codes with a transaction over $150. Of the 21 sample transactions we reviewed, two went through the peer review process. The remaining 19 were either determined reasonable by the foundation or were overlooked. Claims which are questionable or are greater than the established standard should be submitted to the peer review process.

--<u>Utilization Review</u>

The foundation is required to provide and operate a system of utilization review of all Medicaid claims. The review must analyze the utilization of the Medicaid program by recipients and providers to determine normal, over and under use.

During our audit period, the foundation did not have an automated system of review and performed a manual review of claims as they were coded. In fiscal year 1979, 210,000 claims from physicians alone were screened by six employees at the foundation. Not all Medicaid information reaches the foundation because drug and nursing home claims are not submitted to the foundation for coding and/or review.

Statistics about over or under use by recipients or providers are not documented. Therefore, it is not possible with the present system of manual review, for the foundation to provide utilization reports to SRS as required by the contract. The foundation should provide utilization review reports to SRS in accordance with contract requirements.

RECOMMENDATION #3

We recommend that SRS:

A. Require the Montana Foundation for Medical Care to provide the contracted services which include:

1. correcting all coding errors;

2. submitting claims which are questionable or greater than the established standard to the peer review process; and

3. providing meaningful utilization review reports.

B. Monitor the provisions of its contract with the Montana Foundation for Medical Care.

Eligibility Determination

SRS has established a Medicaid Quality Control System in its Program Integrity Bureau to monitor and improve the administration of the Medicaid program. Quality control personnel perform monthly reviews of Medicaid recipients files identified through statistically reliable samples of cases selected from eligibility files. The bureau conducts the reviews to determine 1) whether or not the sampled cases meet applicable Title XIX eligibility requirements and 2) that the amounts paid to provide Medicaid services are correct.

We reviewed ten cases where the Program Integrity Bureau determined an eligibility error existed. The bureau informed the appropriate counties of these errors but the bureau was not responsible for any further action. It is the responsibility of the county to take corrective action in each case.

In two of the ten cases we reviewed, the county did not take corrective action. A third case is currently being investigated by the Medicaid/Medicare Fraud and Abuse Bureau, Department of Revenue, for possible fraud on the part of the eligibility technician. SRS did not followup on any of the ten cases we reviewed because there is no policy requiring such followup.

RECOMMENDATION #4

We recommend that SRS establish and implement a method of followup on eligibility errors found by its Program Integrity Bureau to ensure that corrective action is taken by the counties.

Medicaid Expenditure Accrual

In our 1976 audit report we recommended that SRS work with the Department of Administration to ensure proper accrual of Medicaid expenditures. Department officials discussed the matter with the Human Services Subcommittee of the Joint Appropriations Committee during the 1979 legislative session. They requested the appropriation authority to correct the reporting problem. The appropriations necessary to properly accrue Medicaid expenditures were not recommended by the subcommittee. At fiscal year-end 1978-79, SRS accrued $1,295,629 for Medicaid claims sent to Dikewood prior to June 30, 1979 but not yet paid. The department did not accrue an estimated $6,236,000 in services provided but not billed by June 30, 1979.

We estimated unaccrued expenditures by multiplying the average days delay in billing by the average dollars paid per day for each type of service. We calculated average days delay in billing from a report provided to SRS by the fiscal intermediary. This information is available to SRS and could be used to estimate Medicaid services provided but not billed at fiscal year-end. The failure to accrue these expenditures understates accrued support expenditures as reported on the June 30, 1979 Balance Sheet by $2,432,000, and $3,804,000 for the General Fund and the Federal and Private Grant Clearance Fund, respectively.

The approximate $2.4 million understatement in General Fund accrued support expenditures overstates the General Fund balance reported by SRS to the Department of Administration at June 30, 1979. This overstatement affects the fund balance amount certified by the Department of Administration to the Department of Revenue to comply with the requirements of the Montana Property and Income Tax Relief Act. This act states that "the income tax exemption deduction amounts allowed in section 15-30-112, MCA, 1979 are increased by $50 for each $2.5 million by which the General Fund balance, as certified by the Director of the Department of Administration to the Director of the Department of Revenue, exceeds $14 million as of June 30, 1979."

The General Fund balance certified at June 30, 1979 was approximately $27.5 million. This caused the exemption deduction to be increased by $250. The $2.4 million overstatement caused the exemption deduction to be increased $50 higher than it should have been. Department of Administration officials recognized there was an unrecorded obligation of $2.4 million in the General Fund at year-end. However, the General Fund balance certified at June 30, 1979 could not be changed to recognize the liability because SRS could not legally overexpend its appropriation. To determine the June 30 fund balance on which the tax exemption is based, the Department of Administration recognized the legal limitation on appropriated expenditures.

In the past two fiscal years SRS has not accrued estimated Medicaid expenditures of $5,334,000 at June 30, 1978 and $6,236,000 at June 30, 1979 for services provided but not yet billed. These unaccrued expenditures were charged against the next year's appropriation. Therefore, expenditures reported at fiscal year-end June 30, 1979 are understated by approximately $902,000 (determined by netting the unaccrued expenditures at June 30, 1978 and 1979).

Generally accepted accounting principles (GAAP) and state accounting policy require that expenditures be recorded in the year for which they are a valid obligation. A valid obligation exists when services have been rendered or materials received. An expenditure accrual is to be established when services have been rendered and payment has not been made at fiscal year-end.

To correctly accrue expenditures chargeable to a given year, SRS must make a one-time "catch up" accounting entry. If the entry had been made at June 30, 1979, accrued support expenditures on the Balance Sheet would have included the additional accrued expenditures noted above. General Fund accrued expenditures would have increased by approximately $2.4 million, requiring $1.5 million in additional General Fund appropriation authority for fiscal year 1978-79 (since SRS had approximately $900,000 in unexpended General Fund spending authority at June 30, 1979). This entry does not change expenditures in total but changes the year in which the expenditures are charged. This correction in accounting at SRS is necessary for the fair presentation of the department's financial statements and proper presentation of the fund balance in the state's General Fund.

RECOMMENDATION #5

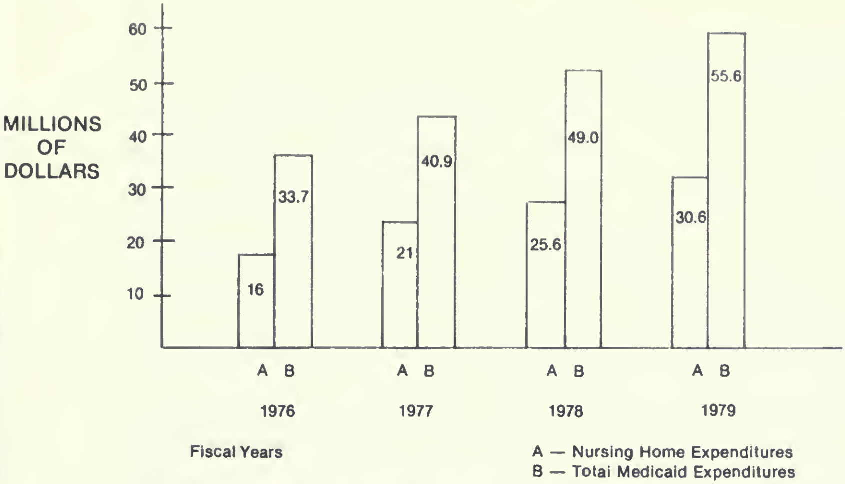
We recommend that SRS:

A. Accrue Medicaid expenditures in accordance with generally accepted accounting principles and state accounting policy.

B. Seek a one-time legislative appropriation to allow for the proper accrual of Medicaid expenditures.

NURSING HOMES

Approximately 50 percent of Medicaid payments go to nursing homes. During fiscal year 1978-79, SRS paid approximately $30 million to the 96 nursing homes participating in the Medicaid program. Payments to nursing homes have increased 91 percent in the last four years compared to a 65 percent increase in total Medicaid payments.



MEDICAL ASSISTANCE PROGRAM EXPENDITURES

Payments to nursing homes are based on reimbursable costs per patient day for Medicaid eligible patients in each home. The SRS Audit Bureau performs reimbursable cost audits of the nursing home cost reports. These audits are used as a basis for determining the reimbursable costs of the nursing home for the cost reporting period audited and to establish the reimbursement rate for each home.

We reviewed the Audit Bureau's working papers for five nursing homes in our Medicaid expenditure sample to determine if the reimbursement rates were reasonable. Based on the results of these reviews, we determined that we could not rely on the audits completed by the Audit Bureau to determine the reasonableness of the reimbursement rates paid. We identified the following problems during our review of the SRS audit working papers.

SRS Audit Bureau Audits

The SRS Audit Bureau performs cost audits of nursing home cost reports in addition to auditing SRS provider contracts, food stamp audits and other audits necessary to the department. Audit Bureau expenditures were approximately $208,000 for fiscal year 1978-79. Bureau personnel estimated that at least 70 percent of their work is related to nursing homes.

The reimbursable cost audits conducted by the SRS Audit Bureau were not in accordance with generally accepted auditing standards (GAAS), including guidelines established by the American Institute of Certified Public Accountants (AICPA) Industry Audit Guide, Medicare Audit Guide. The workpapers did not contain sufficient documentation of the audit tests performed and the evaluation of the test results.

An internal control review and evaluation was not completed for any of the five homes audited to determine the scope necessary to audit in accordance with GAAS. In addition, specific tests recommended by the Medicare Audit Guide were not completed during the audits and in some instances were not included as audit tests in the audit program.

We also found that the Audit Bureau allowed costs prohibited by the Manual of Reimbursement for Nursing Home Care (1974) and the Health Insurance Manual-15 (HIM-15) and disallowed costs that are permitted. For example, the bureau allowed expenses related to unsupported depreciation ($23,487), interest on personal loans ($2,187), and personal vehicle costs ($2,470). The bureau disallowed food ($2,872), nursing supplies ($6,489) and miscellaneous expenses ($4,970) allowable per the Reimbursement Manual and HIM-15.

Current federal regulations require on-site audits of the financial and statistical records of each participating provider over a three-year period beginning as of the close of the first cost reporting year (January 1977). SRS is required to conduct each audit in accordance with GAAS and to have sufficient scope to determine that only costs applicable to Medicaid services were claimed and that the claimed expenses were accurately determined and were reasonable.

The Audit Bureau is currently working to improve the nursing home audit program and their audit techniques. We have informed SRS of the specific weaknesses related to their audit program.

RECOMMENDATION #6

We recommend that SRS perform audits of nursing home providers in accordance with generally accepted auditing standards, including the AICPA Industry Audit Guide, Medicare Audit Guide.

Nursing Home Audits

Since we could not rely on the audits completed by the Audit Bureau, it was necessary for us to perform a reimbursable cost audit of five nursing homes in our Medicaid expenditures sample. We found problems with the nursing home cost reporting and recordkeeping in each of the five homes we audited. The most prevalent problems noted in our audits related to fixed assets and depreciation, vehicles, interest, owner's compensation, professional service expenses, and patient census records.

--Fixed Assets and Depreciation

In three of the five homes we audited, the fixed asset records did not contain complete listings of depreciable assets. Historical costs for several assets could not be verified and we could not be assured of the existence of some items. SRS should enforce specific rules requiring each participating nursing home to maintain documentation on an historical basis for depreciable assets to be used as a means for determining the reasonableness of the related expenses claimed on the cost report.

--Vehicles

Vehicle expenses claimed on the cost report in four of the homes audited included expenses related to personal use of a nursing home vehicle or a personal vehicle. In two of the homes, we could not differentiate between personal and nursing home vehicle expenses. We estimated disallowable expenses using state reimbursement rates. Some nursing homes may own vehicles unnecessary for the efficient and effective operation of the nursing home. SRS should not be reimbursing the nursing homes for such vehicle expenses. The department should evaluate, establish, and enforce specific criteria for vehicle expenses to provide guidelines for the provider and the SRS Audit Bureau.

--Interest

We noted that in three of the five homes visited, the interest expense claimed on the cost report included interest paid on personal loans (total claimed during one cost reporting period was $4,533 by the three homes). In those three nursing homes the loan files were not complete for all loans and we could not verify the propriety of total interest paid by the nursing home and claimed on the cost report. SRS should enforce rules requiring providers' loans to be properly supported by the nursing home records.

--Owner's Compensation

Owner's compensation and/or administrator's salary claimed was greater than the maximum allowable in four of the five homes audited. For example, during one cost reporting period, we disallowed expenses related to owner's compensation and administrator's salary as follows:

Nursing Home	Type of Expense	Amount Claimed	Amount Allowable	Amount Disallowed
1	Owner's Compensation	$10,190	$ 8,100	$2,090
2	Administrator Salary	$27,119	$19,129	$7,990
3	Administrator Salary	$14,075	$10,819	$3,256
4	Administrator Salary	$27,970	$18,712	$9,258

Reasonable ranges, as established by SRS, to allow for equitable compensation to owners and/or administrators, should be provided to the nursing homes. SRS should request providers to report only allowable expenses.

--Professional Service Expenses

Professional service expenses related to the efficient and effective operation of the nursing home are allowable costs. In two homes professional service expenses for accountant and attorney fees of $1,618 and $1,239, respectively, not relating to nursing home operations were included in expenses claimed on the cost report. Transactions from the various expense accounts should be included in SRS' testing for possible unallowable costs.

--Patient Census Records

We compared the patient census records to the total reported patient days and found that the records did not support reported patient days in three of the five homes visited. Total patient days reported varied by 58, 4, and 260 days from the patient census records for the three homes visited. Patient days are an important factor in the calculation of a reasonable reimbursement rate and should be appropriately detailed and supported in the nursing home records. Because patient days were not adequately documented, we could not be assured that reported patient days were accurate. We also identified one home which had exceeded its licensed bed limit for eleven days during the cost report period.

As a result of our audits of the five sample nursing homes, we determined that the criteria for determining allowable costs is not enforced, allowing the criteria to vary from home to home and among independent auditors. We also found that the SRS Audit Bureau does not maintain permanent files for the participating nursing homes. Enforcing standard criteria for allowable costs and maintaining permanent files for the nursing homes would aid the Audit Bureau in the audits of participating homes and in the establishment of reasonable reimbursement rates. The matters described above can be adequately addressed only through current audits performed in accordance with GAAS.

RECOMMENDATION #7

We recommend that SRS:

A. Require nursing homes to maintain adequate and auditable records supporting all cost report items.

B. Establish standard criteria for determining the reasonableness of expenses claimed by the nursing homes.

C. Establish nursing home permanent files containing relevant accounting data to be used during audits of nursing homes and in the rate determination process.

AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC)

The AFDC program is designed to provide financial assistance to needy families with dependent children. Adult relatives or guardians with whom the child is living apply for assistance at the county welfare office in the county where the child resides. Eligibility technicians interview applicants and grant assistance to those satisfying program eligibility requirements. SRS sets management policies and procedures and controls payment processing. We found the following problems in county administration of AFDC.

According to county administrators, it takes at least a month for them to fill vacant social worker and eligibility technician positions. As a result of these vacancies, other workers must assume additional caseloads. This could adversely affect the quality of client services.

Processing job openings through the state merit system inevitably results in delays. However, SRS should work with the counties to minimize the in-house delays in vacancy notifications, application reviews, and hiring.

AFDC client files currently contain complicated forms which, in some cases, include duplicate information and in other cases do not include necessary information. Eligibility technicians spend a significant portion of their time filling out forms, which results in reduced contact with clients. Where possible, forms should be combined and streamlined so that relevant information is obtained to meet client needs.

Before counties transfer clients, they are required by state law and department policy to inform the newly responsible county by sending a Case Study Submittal Sheet and Change Slip. Although counties inform SRS of the transfer, the new county of residence is not always informed. Because of this, counties have clients recorded on their warrant registers processed by SRS before they receive any client information. The counties responsible for making payments and redetermining eligibility are not aware of the transferred client's existence. Unless proper notification is sent and received, there is an increased possibility of errors and improper payments. SRS should review transferred cases to ensure notification is received on a timely basis.

We described these problems in our 1976 report and made similar recommendations. Although SRS has attempted to correct these problems, improvement in these areas is still needed.

RECOMMENDATION #8

We recommend that SRS:

A. Work with counties to minimize time delays in filling staff vacancies.

B. Combine and streamline AFDC application and eligibility forms.

C. Review case transfers to ensure that responsible counties are notified on a timely basis.

NON-RESIDENT GENERAL ASSISTANCE

Although section 53-3-306, MCA, now states that counties must pay for 100 percent of the general assistance program, SRS was responsible for these payments during our audit period. The department still develops state policies and regulations regarding such assistance. We found several problems in our testing which resulted from a lack of SRS supervisory reviews of assistance programs.

In order to qualify for general assistance, needy persons must have been residents of the state of Montana for less than one year. We found four clients out of 29 tested that were residents of Montana for more than one year. In addition, one client file did not have any documentation determining residency status.

During fiscal year 1978-79, SRS required the county to pay 100 percent of general assistance costs once residency requirements were met and the client no longer qualified for non-resident assistance. Also, the original county of residence was responsible for assistance payments for one year after the client transferred to another county. If the county the client transferred to billed the original county but did not receive payment, the bill was then sent to SRS for payment under the non-resident general assistance program. In these cases, SRS paid for resident general assistance because the responsible county refused.

In order to qualify for non-resident assistance, all applicants between the ages of 18 and 65 also had to register for work with the Employment Security Division job service. Nine of the 29 cases reviewed had no documentation that they registered. Because of this, assistance payments may have been given to people who were not eligible.

Our testing was limited in one county because out of the seven files requested, three could not be found. In other cases, we could not find documentation of eligibility verification or social worker visits. We found little evidence of supervisory reviews. The county supervisors explained that their workers do not have enough time to complete all of the paperwork that is required.

Although this program no longer exists, our review disclosed a lack of SRS review and the resulting non-compliance with requirements.

GRANTS-IN-AID

In compliance with section 53-2-323, MCA, counties provide basic care for needy county residents not eligible for state-supported assistance programs. When a county's poor fund expenditures exceed the poor fund cash balance, the county is eligible for a grant-in-aid provided by SRS.

SRS gave a $523,966 grant-in-aid to Butte Silver Bow County for fiscal year 1977-78, and $111,137 for 1978-79. Butte Silver Bow was required to meet specific conditions, as established by SRS, before SRS was to provide aid.

Effective Audit 1978, Butte Silver Bow Hospital was required to account for funds used to provide care for indigent patients separately from other poor fund activity and separately from costs associated with non-indigent hospital patients. Butte Silver Bow did not meet this condition. Regulations allow non-compliance with this condition only if the hospital can demonstrate: 1) that only necessary expenses were incurred in the care of indigent hospital patients and 2) that the hospital was taking reasonable steps to become self-supporting. We could not find evidence of compliance with these requirements in the department's review of the hospital.

SRS reviewed Butte Silver Bow's grant-in-aid applications and the hospital's financial reports.

As a result of this review, SRS decreased the amount of the grant-in-aid. However, SRS could not perform a complete audit of expenditures because the poor fund records are not auditable. Therefore, SRS could not be sure that the grant request was only for indigent expenditures as allowed by state law.

SRS should require Butte Silver Bow to establish and maintain auditable poor fund records in compliance with SRS requirements.

RECOMMENDATION #9

We recommend that SRS:

A. Award grants-in-aid only to applicants that comply with state law and agency rules.

B. Require Butte Silver Bow County to establish and maintain auditable records for its poor fund.

REHABILITATIVE AND VISUAL SERVICES DIVISIONS

Both the rehabilitative and visual services divisions provide rehabilitation services to promote the restoration of Montanans having physical or mental disabilities resulting in employment handicaps and who can reasonably expect to benefit from the services. Visual services are restricted to those who are blind, partially blind, or losing their sight.

The federal government, under the Vocational Rehabilitation Act of 1973, provides 80 percent funding for these programs. The balance is paid from the state's General Fund. Fiscal year 1978-79 expenditures were $696,055 and $4,050,160 for visual and rehabilitative services, respectively. Approximately 630 visual and 9,400 rehabilitation clients were served.

SRS provides vocational services through district field offices located throughout the state. Rehabilitation counselors are required to process applications, set up Individualized Written Rehabilitation Plans (IWRP) with clients, provide counseling during the rehabilitation process, and determine if clients reach their goals. The divisions provide the district supervisors and counselors with training and supervise rehabilitation activities. We noted the following problems in these areas.

Income Eligibility

-- Income Documentation

Seventeen of 63 Rehabilitative Services Division (RSD) clients tested for income eligibility did not have adequate financial studies documented in their case files. In additional file reviews for equipment purchases and maintenance payments, we found 11 files which did not contain this documentation.

Although federal regulations do not require financial eligibility determinations, the state is allowed to consider a client's ability to financially participate in the rehabilitation programs. Both Visual

Services Division (VSD) and RSD have elected to adopt financial needs tests for certain services.

Some RSD counselors we interviewed thought the forms used to document client financial status were inadequate. Others did not use the information or know why it should be used. Also, once the financial information is received, the counselors do not always update the client's financial status during future years of service.

Although the VSD counselors were determining financial status, we found cases in which the information given by the clients was not adequate. One client's financial status was not updated after her marriage. Another client claimed to have a small net worth even though he owned a house and had been working in a profession for many years. Because of the inaccurate and missing financial information, we could not determine if clients were eligible for certain services.

VSD uses a financial status form that requires the counselor to fill out information on the client's financial resources as compared to expenses. Client deficits show the counselor the client's needs. RSD is developing a form similar to that used by VSD. Both divisions need to ensure that counselors are completing the forms and are using the information in determining services provided. In addition, a policy is needed to establish intervals for updating the client's financial status.

-- Training Services

Sections 53-7-105 and 53-7-306, MCA, detail services that SRS provides only if financial need exists for RSD and VSD, respectively. Training services are excluded from the requirements for financial need determinations and must be provided without such determinations.

We found instances where the divisions paid for training when the clients had adequate personal resources. In some of these cases counselors attempted to deny training services to clients but lacked legal authority to do so. A VSD client received a $460,000 court settlement for injuries resulting from an accident. VSD still had to provide the client with rehabilitative training. The training cost was $10,472 as of November 1979. A RSD client received a $41,000 settlement, yet he was provided with college tuition. Another RSD client received $992 a month in benefits and income, but was provided college tuition. There were several cases where clients received training when their families could have supported their educations.

In order to give counselors the authority to require clients with financial resources to pay for their training, SRS should propose legislation changing the statutes to include training as a service requiring financial need determination.

RECOMMENDATION #10

We recommend that SRS:

A. Require counselors to determine, document, and update client financial status when laws and regulations require financial need tests.

B. Propose legislation to include training as a service requiring financial need eligibility.

Counselor Caseload Comparison

RSD caseloads range from 40 clients to 221 clients per counselor. Average regional caseloads are as follows:

Region I (Billings)	107
Region II (Helena)	65*
Region III (Miles City)	98
Region IV (Great Falls)	97
Region V (Missoula)	149

*Includes counselors required at Warm Springs State Hospital and Montana State Prison.

We compiled these figures from statistics provided by the division.

One reason given for the wide caseload range is that some areas have a decrease in injury-related applicants due to population declines and improved industry safety practices. Counselor positions are not transferred between regions when caseload decline is determined permanent. RSD personnel informed us that they intend to transfer the next vacant position in Region II to an overloaded region.

Some counselors said they have too many clients to keep in touch with and provide effective services for. Untimely IWRP's and contact reports (see page 45 and 47, respectively) are due to high caseloads. Although this is true in some cases, we found the client statistics for some regions misleading.

Twelve of the 26 inactive cases we reviewed were closed on a timely basis. Eight cases were inactive and needed closing and six cases were closed on an untimely basis. Inactive files left open overstate the caseloads. We tested four cases for one counselor with a high caseload. Three of the four cases tested were inactive. She did not know about these clients as she had recently taken over the caseload.

Clients who apply for services, receive counseling, and then lose interest are often left in active status, instead of being closed to status 08, "not accepted for services." Counselors say they leave cases open in case the clients return; this saves the client from reapplying. This is another reason for high caseloads.

RSD uses the caseload statistics in its planning process. Counselors should close out inactive cases, so the statistics portray an accurate active caseload comparison. Once the statistics are accurate, the division should reassign counselors to provide consistent caseloads between regions.

RECOMMENDATION #11

We recommend that SRS:

A. Require counselors to close inactive cases promptly.

B. Reassign RSD counselor positions to equalize caseloads between regions.

Title Retention Agreements

Vocational rehabilitation services include providing clients with tools, equipment, initial stock, and other goods expected to benefit the handicapped individual's employability. Current policies in RSD provide for retention of title in the state's name for any equipment purchased for clients. The clients and their counselors sign a title retention agreement for equipment. If a client successfully completes the rehabilitation program and remains in suitable employment for 60 days, title to the equipment is assigned to the client.

We conducted tests of equipment purchases and found that counselors did not always use the title retention agreement. The agreement provides a control to assure that equipment no longer used by the client may be reclaimed by SRS for use by another client. One client received $10,000 of cabinet-making equipment as part of his rehabilitation program. Another client received almost $4,600 in equipment as part of his rehabilitation program. There were no title retention agreements for either of those equipment purchases. As of our review, the clients had not worked the required 60 days before they retained title to the equipment.

In another instance, a client received over $1,600 in equipment for a refrigerator and air conditioning repair shop. Due to an injury, the client was unable to continue with his business. The equipment was not reclaimed because the counselor felt the client would have more use for the equipment than RSD. The division regularly purchases repair equipment for other clients who could have used this previously purchased equipment.

RSD does not have inventory records of equipment purchased by counselors, although purchases in excess of $200 require division approval. If the division had records of equipment purchases, it could transfer unused equipment between regions to avoid unnecessary purchases. The division could use inventory records to verify the existence of title retention agreements.

Title retention agreements were not used in two regions and only partially used in a third region. Some counselors do not think that title retention agreements serve any useful purpose and that there is too much paperwork without including these agreements.

The counselors believe they have inadequate time to both serve clients and complete all necessary forms.

RECOMMENDATION #12

We recommend that SRS:

A. Use title retention agreements for all equipment purchased for clients to ensure the return of unused equipment.

B. Maintain inventory records for client equipment purchases.

Individualized Written Rehabilitation Plan (IWRP)

The IWRP, which describes the client's vocational objectives, services SRS will provide, estimated costs, the client's obligations and requirements, and a time schedule for goals and objectives, is developed by the counselor and client. The Rehabilitation Services State Plan requires the counselor and client to review, revise, and evaluate the plan yearly.

We reviewed 64 RSD client cases to ensure that IWRP's were complete, reviewed yearly, and updated for changes in the rehabilitation objectives. Five cases did not have initial IWRP's established. There was no IWRP to measure one client's objectives against actual employment, yet the case was closed as a successful rehabilitation. SRS provided another client physical restoration services without an established IWRP.

Although SRS is helping this client (who has muscular dystrophy) maintain employment without providing actual training, IWRP goals must be established.

Of the 58 files that had IWRP's, 20 needed annual plan revisions. In additional reviews, we found three other IWRP's in need of revision. One client's IWRP was four years old, although he was provided with on-the-job training during this time. During this four-year period, counselor/client contacts lapsed for 1½ years. The counselor should have reviewed this plan to ensure the training suited the client's abilities and goals.

A college student's rehabilitation progress is measured by reviewing quarterly grade reports. Students must maintain grade point averages, credit loads, and courses within their curriculum. Three of 16 college student files we reviewed did not contain grade reports. Counselors cannot completely evaluate a client's progress without these reports.

<u>RECOMMENDATION #13</u>

We recommend that SRS:

A. Require counselors to complete IWRP's for each client before training is provided.

B. Enforce requirements for annual reviews and revisions of IWRP's.

Case Management

During our review of RSD case files, we found poor documentation of counselor/client contacts. SRS requires counselors to contact clients every three months, unless clients are in plan formation or interrupted services status, which require contact every eight and six months, respectively.

Thirty-three of 67 files reviewed had inadequate documentation of contact with clients. In our additional review of equipment purchases and maintenance payments, we found five more client files with inadequate counselor contact documentation.

Thirteen of these 67 clients were college students. One student wrote to his counselor in October saying he was unhappy with school. The counselor had not documented a reply when we reviewed the file in January. It is important for counselors to contact college student clients at least once each quarter to ensure the students are still interested in and capable of completing the four-year program established for them.

In several instances counselors did not contact clients to ensure that training led to employment. One client was receiving correspondence training from May to November 1978. In November 1979, the counselor had not documented a contact with the client since May 1978. Another client, scheduled to graduate from college in May 1979, had not been contacted as of our review in November 1979, according to file documentation. In another case, a counselor determined in April that his client dropped out of vocational technical center classes in January, two weeks into winter quarter.

Counselors said that although they contact clients, documentation is not always included in the files. Also, when cases are transferred to new counselors, clients are not always contacted unless they receive cost reports, client grade reports, or client requests. This accounts for cases being open long after clients finish or leave training programs.

Some counselors admitted that they have problems managing their caseloads. They cannot keep track of when client visits are due. RSD should provide counselors with training in case management.

RECOMMENDATION #14

We recommend that SRS provide counselors with training in case management.

Successful Case Closures

Once clients find employment and no longer require rehabilitation services, counselors close their cases as status 26, "successfully rehabilitated." Included in this status are clients who find employment outside the goals established in the IWRP.

During fiscal year 1979, RSD closed 1,043 cases to status 26. We tested five status 26 cases in our initial sample and found one client was working at a job outside his rehabilitation program. While reviewing additional files for maintenance and equipment expenses, we identified three more cases where this occurred. Listed below are the examples:

1. A client trained as a welder found a job as a dishwasher.

2. A client trained in business management found employment as a furniture dispatcher.

3. One client received clerical training for two weeks and reportedly started working at a carnival. The counselor planned to close the case as status 26.

4. The file of a client who decided to attend school with his own resources was closed to status 26 when he found employment.

Counselors believe that they should get credit for rehabilitating these clients because the employment outcome is beyond the counselor's control. Closing these client cases as status 26 is misleading because not all 1,043 clients obtained employment consistent with their training. The division should establish a system to identify "employment unrelated to training." This would still give counselors an idea of their employed clients without inflating the statistics concerning success of rehabilitation training.

RECOMMENDATION #15

We recommend that SRS establish a system to identify cases where client employment is unrelated to training.

Maintenance Payments

RSD counselors give maintenance payments to help clients with living expenses during their rehabilitation process. Clients must show that their expenses exceed their income to be eligible for maintenance.

We questioned the reasonableness of 10 of 26 maintenance payments in our sample. In other tests, we noted five more cases where maintenance payments were questionable. Many clients had maintenance established for several months with no timely review of the their needs. One deaf college student received $150 a month for the entire school year with no periodic re-evaluation to determine if he needed the money all nine months. A diabetic student received $50 a month for two years to help with medical costs. Again, the counselor made no redeterminations during this period.

SRS requires counselors to contact clients in training status every three months. At these intervals the counselors should re-evaluate and document the clients' needs for continuing maintenance payments.

Also, counselors are at times basing need for maintenance on outdated client financial statements. In one case, a client attending college in 1979 received maintenance based on a 1977 financial statement.

Another client received a $172 one-time payment, even though the financial statement showed the client had $4,900 in a savings account. The counselor explained that the client used the $4,900 before receiving the maintenance. We could not determine that from our review. As clients' status constantly change, counselors should revise financial statements periodically.

The amount of a maintenance payment is based on counselor judgment. We talked with several counselors who have opposing views on payment amounts and actual client need. One counselor maintains a conservative opinion on maintenance and will not give it unless clients are in extremely poor financial condition. Another counselor gives clients who request maintenance $200 per month in most cases. While reviewing files, we found payment patterns established by each counselor. Maintenance payments are based primarily on counselor judgment rather than client financial need data.

RSD hesitates to give counselors strict payment guidelines, as each client has different circumstances to be considered. The division also wants to give counselors freedom to use their judgment. This results in inconsistency in payments between clients. Basic guidelines should be established so that needy clients receive maintenance on a consistent basis.

RECOMMENDATION #16

We recommend that SRS:

A. Require counselors to re-evaluate client maintenance needs periodically.

B. Require counselors to update client financial statements periodically.

C. Provide counselors with basic maintenance financial need guidelines.

Book Allowances

Financial need is not a basis for funding student tuition costs. However, state regulations require counselors to determine if financial need exists before providing funds for training materials, including books.

Twenty-two of 25 students in our college sample received books as a part of their training. RSD counselors did not determine financial need for nine of these clients.

Books should be given only when financial need exists. Book allowances given depend upon patterns established by counselors and regions, rather than upon client needs. Allowances range from $40 to $60. Clients requiring the same books may receive different amounts if they have different counselors.

RECOMMENDATION #17

We recommend that SRS:

A. Provide book allowances only if financial need is established.

B. Base book allowances on individual client needs.

R-300 System

Both the Visual and Rehabilitative Services Divisions use a statistically based activity and cost reporting system called the R-300 Cases Services Report. The system generates reports showing clients' current status, counselor caseloads, funding sources, case closures, and client expenditures.

In our previous report, we noted system problems such as untimely reports, incomplete reports, incomplete client updates, and duplication of effort. Problems discovered during our current audit, such as infrequent client contact visits, untimely case closures, and outdated IWRP's, could have been reduced if the R-300 system had been updated by April 1978, the completion date described in our previous report. The R-300 system revision is now set for July 1980.

The division recently contracted with the Department of Administration to rewrite the R-300 system. Division officials explained that the delays in system development were due to employee turnover and qualifications, data processing contract disputes, and conflicting decisions on the extent of revision.

Once the R-300 system is revised and counselors are trained to use the system, some case management problems may be eliminated.

RECOMMENDATION #18

We recommend that SRS complete the R-300 Cases Services Report revision without further delay.

Rehabilitation Goals

In some cases, RSD counselors establish long-term education goals before fully evaluating their clients' needs and abilities. We questioned education goals in 11 of 30 college students tested.

Of the eleven clients, seven had no established goals upon graduation from high school and were enrolled in college curricula. Two clients were enrolled in school with Rehabilitative Services' aid despite telling their counselors they were not very interested in attending college. Two other clients left school after a few quarters because they lost interest. These eleven clients may have been better served if they had been enrolled in short-term training with obtainable goals.

Client IWRP's generally require students to maintain a minimum grade point average and number of credits in order to remain eligible. We found four clients who fell below the minimums set in their IWRP's because their curriculum was too difficult for their disabilities or previous education. An additional client left school because his goal to become a geologist was not compatible with his back problems. Counselors should have given these clients more thorough evaluations to ensure that they could meet their goals.

RECOMMENDATION #19

We recommend that SRS require counselors to:

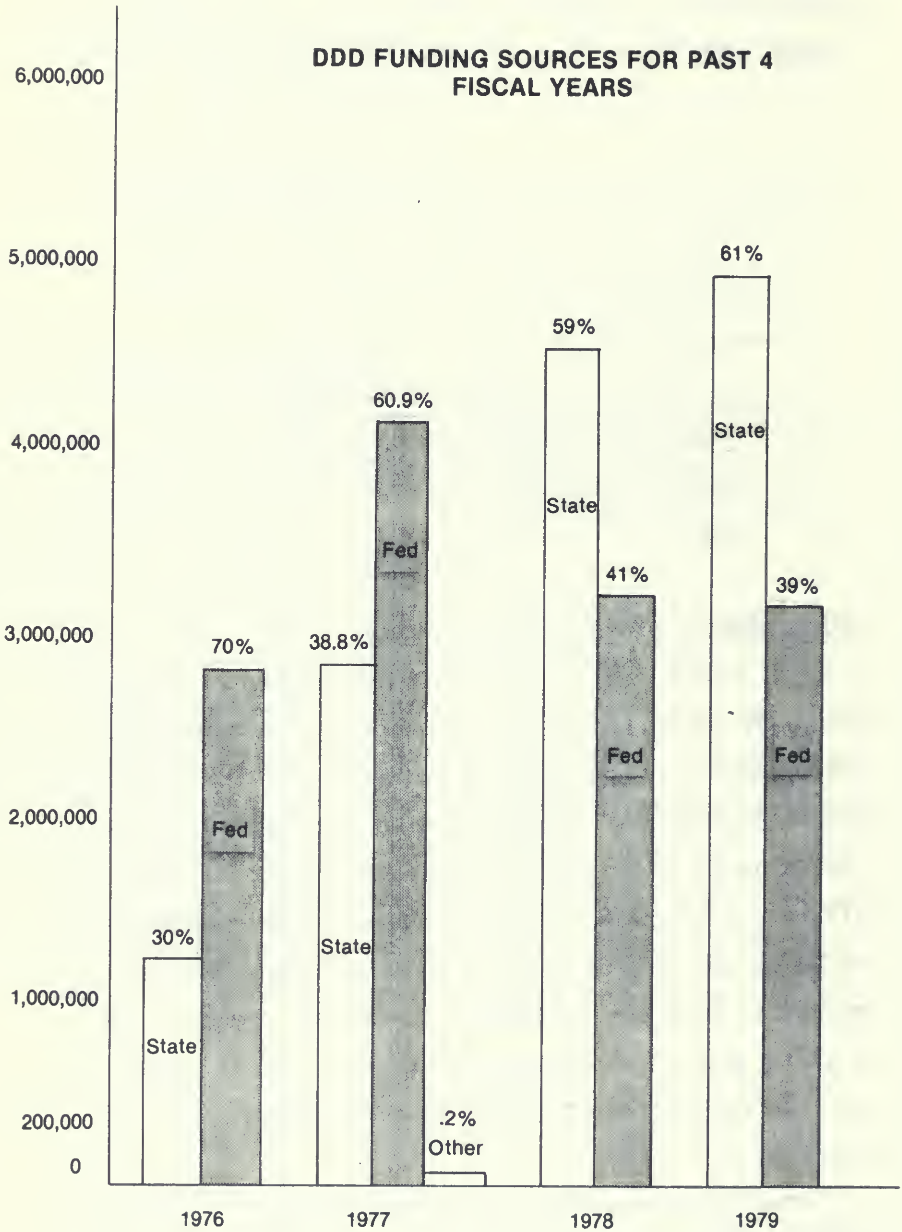
A. Document their rationale for choosing long-term college training over shorter training classes.

B. Determine that clients are capable of meeting training goals.

DEVELOPMENTAL DISABILITIES DIVISION

In fiscal year 1978-79, the Developmental Disabilities Division (DDD) contracted with 64 non-profit corporations to provide services to developmentally disabled persons. Administration and supervision of the division's programs is achieved through a central office in Helena and five regional offices headquartered in Miles City, Great Falls, Billings, Helena and Missoula (Regions I through V, respectively). The state's general fund and federal funds under Title XX of the Social Security Act provide funding for the program.

The following chart shows the funding pattern of DDD over the past four years.



DDD FUNDING SOURCES FOR PAST 4 FISCAL YEARS
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
200,000
0
30%
State
70%
Fed
38.8%
State
60.9%
Fed
.2%
Other
59%
State
41%
Fed
61%
State
39%
Fed
1976
1977
1978
1979

Family and Child Services

In fiscal year 1978-79, DDD Family and Child Services programs received Title XX funding although clients served were not required to meet Title XX eligibility requirements. Of the 34 clients we tested, county welfare offices had files for only 17. All 17 clients were receiving DDD services; however, in reviewing their files we found that eligibility determinations had not been made on 14 of them. Furthermore, the other three clients served had been determined ineligible because their family income was too high.

The situation has been corrected for fiscal year 1979-80 by funding the program with state general fund money. This eliminates the need to meet any financial eligibility requirements. However, for the audit period the division was in violation of federal regulations. SRS is subject to federal sanctions for the costs of serving ineligible clients.

Reimbursement of Ineligible Costs

One DDD provider budgeted $9,278 for the hot lunch program in its sheltered workshop. This cost is not allowable under Title XX regulations because it constitutes room and board which is not identified as a service to be provided in the state plan. In fiscal year 1979-80 contracts the division has corrected this problem by earmarking food costs as state funded.

Administration

There are regional inconsistencies in the administration of the Developmental Disabilities Program:

-- Program Costs - We compared fiscal year 1978-79 funding distribution to the units of service provided. Unit costs for some programs varied significantly among the regions. For example, day services program costs varied from $17.83 per unit of service in Region V to $20.65 in Region IV. Adult group home unit costs were $6.14 in Region I and $8.55 in Region II. The children's group home program cost $23.08 in Region III and $47.03 in Region IV. We recognize that some differences are justifiable because each region is unique; however, when considering the thousands of units of service provided annually, the above differences are significant and should be closely monitored by the division.

-- Service Duplication - There is a duplication of services in Region III. This region has two child and family services programs. Although they serve different age groups, both programs focus on helping parents train their developmentally disabled children at home. The department should consolidate the programs to reduce administrative costs and increase program effectiveness.

RECOMMENDATION #20

We recommend that SRS:

A. Closely monitor differences in program unit costs.

B. Review regional requirements and provider contracts to identify and eliminate duplications in services.

Contract Process

The following weaknesses in the DDD contracting process exist:

--There is no standard basis for allocating administrative costs to the various programs of a provider. To reasonably compare program costs of providers, administrative expenses should be allocated on the same basis.

--Several providers complained that the turnaround time allowed for processing fiscal year 1979-80 contracts was too short. They could not adequately review the provisions before signing the contract. DDD officials indicated that problems occurred because it was the first year the new contract format was used and the division did not learn what funding was available for distribution until May 1979.

--One provider had not refunded $1,832 in unspent contract money four months after the end of the fiscal year 1978-79 contract period. Division policy is to review contracts within 60 days of the end of the contract period. In this instance, the review had not been completed.

--Each DDD contract is a separate responsibility center on SBAS. However, the contract amounts are not encumbered. Encumbrance of the contract amounts would increase control and provide the ability to monitor contracts using SBAS records.

--The division requires providers to justify budget line items. When questions arise concerning particular costs the provider submits the justification to the division. Two providers were unable to provide support for budget line items we questioned.

--Contracts and grants do not include adequate close-out instructions. They do not contain a definition of what a valid accrual is at the end of the contract period. This results in the potential for abuse and inconsistency in close-out procedures among providers.

RECOMMENDATION #21

We recommend that SRS correct the contract process weaknesses described above.

Provider Records

Our testing included tracing monthly financial reports submitted to DDD, back to provider records. We tested 16 contracts relating to 7 providers and noted the following problems.

Three providers had inadequate property records. Federal regulations require grantees to maintain property records on items purchased with federal money. Records were not in a format adequate to meet the federal standards. Without these records DDD cannot identify property purchased with state or federal funds. Identification is essential since such property should revert to the division for redistribution, if a provider ceases operation.

DDD contracts do not contain specific depreciation requirements. We noted several problems with depreciation during our testing. One provider had inadequate records to support depreciation of leasehold improvements. Two other providers claimed as depreciation actual van loan payment amounts. This is incorrect because vehicle payments do not necessarily relate to the useful life of the asset. Furthermore, interest expense is being charged using this method. Interest expense is not allowable for reimbursement under federal regulations.

For three of the contracts tested, the client attendance records were inadequate, inaccurate, or nonexistent. Without this documentation, the division cannot determine whether the services it pays for are being provided. Although contracts require the maintenance of client attendance records, the division has not developed a uniform format or minimum criteria for such records.

At one provider we visited, there were several bookkeeping problems. One program was unauditable. We also found inadequate employee time and leave records. In addition, the provider failed to close out fiscal year 1978-79 contracts and submit year-end financial reports on a timely basis. The division should monitor providers to assure adequate recordkeeping.

RECOMMENDATION #22

We recommend that SRS:

A. Include specific requirements for property records and depreciation in provider contracts.

B. Develop minimum criteria for client attendance records.

C. Monitor providers to assure compliance with recordkeeping requirements.

Conflict of Interest

The director of one provider we visited made lease payments on a van, and in return leased the van to the provider. When the director resigned he kept the van. The provider had made $5,040 in lease payments to the director. DDD contracts have no provision limiting the transacting of business with someone directly involved with the provider, as in this instance.

RECOMMENDATION #23

We recommend that SRS include a contract provision requiring department approval of transactions between providers and related parties.

Director Bonuses

With assistance from DDD, we found that the former director of one provider received $4,213 in salary for two months he did not work. The provider's board of directors approved this bonus. He was also paid for unused sick leave and vacation benefits although provider records were not adequate to support their determination.

When another provider's director resigned, the board of directors approved payment of a $1,000 bonus. The DDD contract funded $556 of this payment.

Federal regulations allow federal funds for bonuses that are planned for and included in an employment contract. The above bonuses were not included in the providers' contracts.

RECOMMENDATION #24

We recommend that SRS disallow providers' employee bonuses unless they are included in employment contracts and DDD provider contracts.

Client Funds

Many DDD clients receive monthly Supplemental Security Income payments (SSI). A portion of these payments goes to the provider for payment of such expenses as client room and board. Clients are entitled to a minimum of $25 of the payment, to spend at their discretion.

Inadequate monitoring of these client funds resulted in allegations that a provider had misused the personal portion of the client funds. Records were not sufficient to determine whether abuse had occurred. However, the provider is now repaying approximately $4,200 in clients' personal funds that had been commingled and used with other provider moneys.

RECOMMENDATION #25

We recommend that SRS develop standard criteria for providers to use when accounting for client funds.

Capital Improvements

Prior to this audit period, the division funded a $5,800 improvement to a group home a provider was leasing. The provider did not renew the lease in fiscal year 1978-79, resulting in a write-off of the improvements since they were of a permanent nature.

In another instance, a sheltered workshop received a $6,148 budget amendment to fund roof repairs. The building is owned by the provider. The division approved the amendment because the leaky roof created a safety problem for the clients. If the provider sold the building or ceased operation, the state would have no interest in the improvement.

RECOMMENDATION #26

We recommend the department obtain a legal interest in improvements to property over which the state has no control, before funding them.

Group Home Licensing

As of March 1980, 11 of 61 group homes for the developmentally disabled had delinquent licenses. Five of these homes were delinquent for over six months, and one for over a year.

The SRS Social Services Bureau shares the responsibility of licensing group homes with the Department of Health and Environmental Sciences. Coordinating the necessary inspections results in some of the licensing delays. Another problem is that homes have to be licensed for the current operator. Because there is a high turnover in group home operators, it is difficult to keep licenses current.

RECOMMENDATION #27

We recommend that SRS establish procedures to enable timely licensing of group homes.

DDD Eligibility

Developmentally disabled clients must meet financial eligibility requirements before receiving services paid from federal Title XX funds. Federal financial eligibility is determined by either median income or income maintenance status. Developmentally disabled clients are automatically eligible for services paid from state funds by virtue of their disabilities.

The federal government determines DDD median income levels, which are 80 percent of the state's median income, adjusted for family size. Clients are eligible for Title XX services if their income and their guardian's income are within the median guidelines. Developmentally disabled clients who receive Supplemental Security Income (SSI) are automatically eligible for Title XX services under the income maintenance status.

Caseworkers determine and redetermine client eligibility at designated intervals. Giving one individual complete responsibility for a client case increases the chance of intentional or unintentional errors, resulting in providing services to an ineligible person. Caseworker supervisors should have final approval of client eligibility.

Federal regulations require eligibility redeterminations every six months unless the client's income is derived from a fixed source, such as pensions, social security, or SSI. In these cases, eligibility is redetermined every twelve months. We found that six of 22 adult cases tested did not have timely redeterminations. Because clients' financial status can change, eligibility should be monitored to ensure that only eligible clients receive services paid from Title XX funds.

Fiscal year 1979-80 Child and Family Service programs are entirely state funded, so that clients only need to be developmentally disabled to be eligible for services. DDD providers determine eligibility for children who are not in any other county program. SRS should establish better control over eligibility determination by requiring the counties to provide this service. Providers should not have the ability to provide services to all individuals they consider eligible.

RECOMMENDATION #28

We recommend that SRS:

A. Require supervisory review and approval of eligibility determinations.

B. Ensure that counties comply with federal regulations concerning redetermination of eligibility.

C. Require counties to determine eligibility of child and family services cases.

SOCIAL SERVICES BUREAU

The Social Services Bureau provides services to clients through the county and district welfare offices. Programs include adoptive placement, day care, foster care for children and adults, homemaking, institutional placement and counseling, unmarried parent counseling, and employment, health, and protective services. The bureau also provides legal and family planning services by contract with the Montana Legal Association and the Department of Health and Environmental Sciences. Our audit included reviews of the foster care for children, day care, and family planning programs. The problems we noted are discussed in the following sections.

FOSTER CARE

General

The Foster Care Program provides services for children under the age of 18 in need of care outside their natural homes. The program consists of Child Welfare Services (CWS) and Aid to Families with Dependent Children (AFDC) foster care services. The CWS and AFDC programs are funded by Title IV federal matching grants.

The Foster Care Program provided assistance payments of $2,020,000 for the care of 2,473 children during fiscal year 1978-79.

Financial Participation by Parents

We reviewed 49 case files to determine if the county social workers explored all possible sources of financial support for placed children. In 19 cases no documentation of a financial resource study existed. The bureau's policy manual requires all possible sources of financial support for placed children be explored and obtained to apply towards the child's care.

Section 41-3-405, MCA, requires the county welfare department, upon receipt of a petition alleging abuse, neglect, or dependency of a child, to investigate the financial ability of the parents to pay the cost of supporting the child in a foster home. The courts may use these studies to determine the ability of the child's parents to pay a part or the whole of such cost.

The state statute regarding the county welfare department's responsibility for the review of the parents' financial status in effect during fiscal year 1978-79, was amended effective July, 1979. The revised statute allows the investigation of parent financial status only after the court determines the youth is abused, neglected, or dependent.

The decision to require parents to provide support payments for their child's care rests ultimately with the courts. However, the state is still required by law to provide adequate financial resource information to make the court fully aware of the parents' ability to pay.

RECOMMENDATION #29

We recommend that SRS develop a standard form to enable social workers to make a proper financial investigation and to assure adequate disclosure of financial resources available to pay for a foster child's care.

Inadequate Case Documentation and Review

The Social Services Bureau established a manual detailing the policies and procedures necessary to fulfill legal obligations. We noted that foster care case files lack required documentation to provide assurance that the policies and procedures are actually followed. The following deficiencies were noted:

1. In 41 of 48 cases reviewed, the social worker supervisor did not provide written approval of the placement as required by the manual.

2. The manual requires the social worker to assess a case after the first six months in placement. In seven of the 35 case files reviewed, where the placement exceeded six months, we found no documentation of the social worker's case review. In four of these cases the file did not include documentation of a review within the first year of the placement period.

3. The manual requires the social worker to contact the foster child a minimum of every two weeks and the foster parents a minimum of once a month. Twelve of the thirty-five cases reviewed did not include documentation of the social worker's contact with the foster child and parents at the required intervals.

4. Social worker responsibilities include completing the child's medical record, through the parent when possible, and arranging for foster children to receive a physical examination once a year. Thirty-five of the 41 case files reviewed did not include the medical record or documentation of yearly physical examinations.

RECOMMENDATION #30

We recommend that SRS:

A. Emphasize to social workers the importance of documenting compliance with policies and procedures contained in the Social Services Bureau's manual.

B. Establish a policy requiring the periodic review of case files by either the social worker supervisors or Social Services Bureau personnel, to ensure compliance with bureau policies and procedures.

Group Care Facility Rates

After SRS obtains custody, social workers place children in temporary receiving homes, private homes, group homes, or institutions depending upon the availability of facilities and the needs of the child.

The legislature established rates of payment for private homes and institutions. Group care facilities establish their own rates, and the Social Services Bureau accepts these rates if they appear reasonable. SRS uses no formal review process to determine if the payment rates are reasonable and comply with federal guidelines.

Federal regulations allow federal financial participation only for those cost items necessary for care in foster family homes. Federal requlations exclude overhead costs of the institution, and require specific criteria for determining payment rates. Failure to comply with these federal regulations could result in a loss of federal funding for the Foster Care Program.

SRS is developing a new system for establishing monthly rates of payment for group care facilities. The system incorporates specific criteria into the rate determination process. Once rates are established, SRS should review the facilities to ensure that federal regulations are met.

RECOMMENDATION #31

We recommend that SRS establish rates of payment for group care facilities in compliance with federal regulations.

Overpayments to Providers

We reviewed 70 client case files and noted 6 instances of overpayments to foster care providers because the county welfare offices provided SRS with inadequate information. In these cases the counties of financial responsibility failed to notify SRS on a timely basis of case closures and changes in payment rates. One provider received $1,450 in excess payments over a year's time before discovery of the overpayment error. SRS is requesting the provider repay this amount.

SRS prepares monthly foster home payrolls from information contained in forms submitted by the county offices. A form is required for each opening, closure, transfer, and other change related to the payment of foster care payments. The counties must submit these forms on a timely basis, so the provider payments reflect changes when they occur.

RECOMMENDATION #32

We recommend that SRS require timely foster care payroll changes and take action necessary to ensure compliance by county offices.

AFDC Foster Care Eligibility

Title IV-A of the Social Security Act provides AFDC foster care payments for eligible children during the month court action placing them in foster care is initiated. We reviewed twelve foster care case files of persons receiving AFDC funding. Four of these case files did not contain documentation of AFDC eligibility determination or redetermination.

The Social Services Bureau requires that eligibility technicians certify AFDC foster care eligibility. The certification must be recorded in the child's social service case record. Redetermination of eligibility for AFDC foster care must be completed at least every six months.

According to one SRS official, they realize that many AFDC foster care cases do not meet the eligibility requirements and are reclassifying these cases to the Child Welfare Services (CWS) program. The official stated that ineligible cases were classified as AFDC because the federal matching funds for AFDC cases exceed the federal match for CWS clients. Although federal financial participation through the AFDC program requires a smaller contribution from the state than that needed for the CWS program, failure to comply with the federal eligibility requirements could result in a loss of federal funding.

RECOMMENDATION #33

We recommend that SRS develop policies and procedures adequate to ensure that the determination and documentation of AFDC foster care eligibility meets federal requirements.

DAY CARE

The Day Care Program provides an organized service for the care of children away from their homes, and the evaluation and licensure of day care homes and centers. Approximately 515 day care homes and 85 centers received payments of $1.1 million during fiscal year 1978-79. We noted the following problems in our review of the program.

1. SRS day care home and center licensing procedures include limits for each facility as to the maximum number of children allowed in attendance. Seven of the 25 day care facilities visited exceeded their license attendance restriction. Two providers stated that the day care payment rate does not allow them to operate their facility at a profit without exceeding the license attendance restriction. Several other providers stated that they only exceed their attendance level after school hours, when school age children come for an hour or two, or on occasions when parents unexpectedly drop their children off. Two other providers stated they did not know that their own children under the age of six, counted in determining the number allowed in attendance.

2. The Montana State Plan for Social Services does not allow for provider-imposed fees or charges in addition to the state payments. Federal financial participation is not available when a provider imposes a fee or charge other than that set by the state agency. Two providers we visited charge a fee in addition to the state payment. One provider stated that the state payment rate for day care does not make it worthwhile to take state paid children when private pay clients will pay $.50 a day more. The operator accepts state paid children if their parents pay the additional $.50 a day. The other provider charged parents an additional $.75 an hour for care provided during unusual hours. The provider's reason for this fee is to discourage inconsiderate parents from bringing their children at unexpected times, or not picking up the children as agreed upon. The provider does not charge any fee in addition to the state payments for care during agreed upon periods.

3. The Social Services Bureau's Policies and Procedures Manual requires day care facilities offering full day care services to provide one main meal and two snacks during the period of care. One of the 25 providers visited requires the parents to supply the food for their children's lunches. According to the operator of this facility, the state rate is too low to cover the costs of a meal and two snacks, and also provide the operator with a reasonable return for the time and facilities involved.

One reason for these problems is day care payment rates. Effective July, 1975 state law required <u>minimum</u> payments of $4 per child per day in day care homes, and $5 per child per day in centers. During fiscal year 1978-79, the Social Services Bureau allowed <u>maximum</u> payments equal to those set by statute. The providers we visited received the established payments.

The 1979 Montana Legislature amended section 53-4-514, MCA, to require SRS to pay <u>minimums</u> of $4.50

per day for each child until December 31, 1980, and $5 per day thereafter. An additional $1 per day may be paid to facilities meeting federal requirements. The state statutes indicate that SRS can establish rates exceeding the minimum rates set by the legislature provided funding is available. SRS should review day care reimbursment to determine if the needs of the recipients are being met at the current rates.

RECOMMENDATION #34

We recommend that SRS:

A. Review the day care payment rates to determine if they adequately cover operating costs of day care operators.

B. Develop appropriate policy changes within the federal guidelines limiting the number of children facilities may serve at one time, or enforce the current restrictions.

C. Provide all day care facilities with a current copy of the day care program policies and procedures.

FAMILY PLANNING PROGRAM

General

The Family Planning Program provides services directed primarily at preventive health measures and counseling aimed at enabling families to voluntarily limit their family size. SRS delivers family planning services by contract, through the Department of Health and Environmental Sciences, with local providers. The program receives federal funding under Title XX of the Social Security Act. SRS paid local providers $229,500 for services offered to 2,295 clients during fiscal year 1978-79.

The following problems were noted during our review.

<u>Recipient Payments</u>

During a review of client files at one of the local centers, we noted that the provider requested donations from Title XX eligible clients. The center asked that clients pay set amounts for examinations and supplies. These payments were considered donations.

The federal regulations relating to Title XX programs require state service plans to specify which categories served will be charged a fee and to include the fee schedule. The Montana State Plan for Social Services does not allow providers to assess clients fees for services rendered.

Although this provider is not technically billing the client for services, and thus charging a fee, such requests may intimidate clients and make them reluctant to seek further Title XX services. Soliciting donations from clients violates the regulation's intent by discouraging the use of the program.

To determine if this practice occurred throughout the state, we sent confirmations to and telephoned a sample of Title XX clients. Twelve of the 44 respondents stated that they made payments to providers for services received. One individual indicated that the payment represented a donation. The other eleven clients did not specify whether they considered their payments to be donations.

RECOMMENDATION #35

We recommend that SRS include provisions in provider contracts precluding the family planning centers from soliciting client donations.

Income Eligibility Determination

Federal regulations allow states to establish any method, including a declaration method, for determining individual eligibility for family planning services. The method chosen must provide sufficient information which would lead a reasonable person to conclude that the program eligibility criteria have been met.

SRS allows providers to use the declaration method in determining clients' income eligibility. The declaration method uses an individual's statements about family gross monthly income and the income maintenance status of family members.

Nine of the 30 case files we reviewed for provider income eligibility determinations reported no income for the Title XX applicant. Two of the nine case files reporting no income contained conflicting information indicating that these individuals' income exceeded the eligibility requirements. The seven other individuals' applications and case files contained no additional documented information as to their means of support. The nine case files did not include sufficient information to determine if these individuals meet income eligibility requirements.

SRS does not have the specific authority to verify the applicants' income through Department of Revenue income tax records. This lack of authority prevented us from verifying a sample of clients' income for eligibility. SRS should obtain each applicant's authorization to verify his income through the Department of Revenue, by specifying such in the signed application for services.

RECOMMENDATION #36

We recommend that SRS:

A. Change the language of the Application for Title XX Services to specifically grant SRS the authority to verify applicants' incomes with the Department of Revenue.

B. Require family planning centers to verify Title XX applicants' reported income or income maintenance status.

AGING SERVICES BUREAU

The SRS Aging Services Bureau distributes funds, evaluates programs, and provides technical assistance and training for the statewide system of area agencies and service providers that deal directly with the aged.

For our audit period the bureau was funded primarily with federal funds under Titles III, V, and VII of the Older Americans Act of 1965, and Title XX of the Social Security Act.

Overexpenditure by Area Agency

During our audit, the Aging Services Bureau informed us that one area agency was unable to meet $36,000 in obligations. Because it had already spent its fiscal year 1979-80 grant allocation, the agency could not make payments due to nutrition projects. This resulted in a loss of congregate meal services for approximately three months. Funding from the county and additional federal funds that became available in December 1979 alleviated the situation.

The bureau should monitor area agency activity to detect potential funding and management problems at an early stage. This could be accomplished through periodic reviews of area agency financial reports.

RECOMMENDATION #37

We recommend that SRS develop a reporting and review process adequate to assure responsible grant administration by the area agencies.

Eligibility

At both Title VII Nutrition projects we tested there were inadequate procedures for determining client eligibility. Federal regulations require people served to be at least 60 years old, yet programs did not verify the age of participants.

There was also some misunderstanding among providers concerning eligibility requirements. For example, the director of one area agency thought developmentally disabled persons were eligible for the Title VII nutrition services regardless of age. The administrator of another project had misinterpreted federal regulations to forbid verification of participants' ages.

At one of two Title XX aging services providers, there was inadequate documentation of client eligibility testing. For three of five clients tested, we were unable to find documentation that eligibility had been determined. For two of the clients, eligibility had not been redetermined as required by federal regulations. Although the bureau no longer receives Title XX funding, compliance with federal eligibility requirements should be emphasized.

RECOMMENDATIONS #38

We recommend that SRS develop and communicate to providers minimum procedures necessary to determine participant eligibility.

Senior Center Grants

The bureau distributed Title V funds for senior center grants to the area agencies. One area agency did not allocate the funds to the senior centers in the same proportions as proposed in the initial grant. Nor did it expend the funds in agreement with the grant proposal. The bureau had no opportunity to approve these changes because it learned of them after the fact.

The same area agency is housed in a senior center that received $12,236 of the grant to purchase office equipment. This equipment is used primarily for area agency administration, although it is owned by the center. Consequently, the senior center and area agency records do not properly reflect equipment usage.

RECOMMENDATION #39

We recommend that SRS:

A. Monitor senior center grants to assure that deviations from the original grant receive prior approval.

B. Transfer title of the above equipment from the senior center to the area agency to properly reflect usage.

Provider Records

In testing aging services programs we visited five Title III projects, two Title VII projects (including five project sites), two projects that had received

Title XX funding, and two senior centers receiving Title V grants. The following problems were noted with program records. (Not all providers were tested for all attributes discussed below):

--Six of nine providers had inadequate or no property records. This reduces control over assets purchased with state and federal money because items cannot be specifically identified. Identification is important since assets should be returned to the department for redistribution should a provider cease operation.

--Two of seven providers tested were not recording or adequately reporting all transactions. In one instance the provider did not report $3,035 income because it was not included in the original budget.

--Three of seven providers did not have records adequate to support monthly financial statements submitted to the bureau. Documentation is necessary so the bureau can be assured that spending is in accordance with the purposes of the grant.

--One of the above mentioned provider's Title XX contracts and a portion of its Title III grant were unauditable. Although the area agency had periodically reviewed the provider, the situation had existed for several years. Assessments of the area agency by the Aging Services Bureau indicated weaknesses in review and documentation procedures of the area agency.

Federal regulations require that SRS perform annual, on-site evaluations of area agencies. Evaluations of Title III and Title VII projects by either SRS or the applicable area agency are also required. These reviews should identify and correct deficiencies in evaluation and recordkeeping practices of area agencies and projects.

RECOMMENDATION #40

We recommend that SRS:

A. Require aging services projects to maintain accounting and property records adequate to document financial reports.

B. Require aging services projects to report all receipt and disbursement activity.

C. Monitor area agencies and projects to assure compliance with recordkeeping and other requirements.

DATA PROCESSING

The SRS Data Processing Bureau is responsible for the programming and operation of most of the department's data processing systems. The bureau consists of the following sections:

1. Keypunch
2. Computer Operation
3. Edit and Error Correction
4. Systems Design and Programming

The bureau's major equipment consists of a remote job entry station, a printer, and terminals, all of which are connected to the Department of Administration's computer center.

The major SRS data processing systems include:

1. The Montana Income Maintenance System (MIMS)
2. The Beneficiary Data Exchange System (BENDEX)
3. The Dikewood Eligibility System

4. The Medical Quality Control System (MMQCS)

5. The Case Services Report System (R-300)

We reviewed the overall data processing controls. The Dikewood Eligibility System and the Medical Quality Control System are discussed in the Medicaid report section. Comments resulting from our review of the Case Services Report System are discussed in the Vocational Rehabilitation and Visual Services report section.

Disaster Documentation Backup

SRS does not maintain duplicate systems, or operational documentation in either hard copy or microfiche at an off-site location. If any of the department's original documentation were destroyed or lost, lengthy reconstruction would be necessary with resulting operational delays.

RECOMMENDATION #41

We recommend that SRS maintain duplicate systems and operational documentation at an off-site location for significant departmental data processing systems.

Dollar Control Totals

The MIMS system does not require the use of dollar amount control totals to verify that only authorized input documents have been processed. If the dollar totals were used as a control any changes in dollar amounts during processing would alert the operators that an error had occurred. Without such controls SRS cannot be certain that all transactions have been properly authorized and recorded.

RECOMMENDATION #42

We recommend that SRS require the use of dollar control totals in the MIMS system.

CONTROL WEAKNESSES

During our testing we found weaknesses in internal controls that were not disclosed in the preceding report sections. These weaknesses are listed below.

Employee Leave

1. We found 16 instances from a sample of 40 leave records where mathematical errors in sick and vacation leave balances occurred. Five of the errors were from records maintained by the Veterans' Affairs Division.

Expenditures

1. AFDC and Foster Care warrants are transferred to SRS after being signed by the State Auditor. The Fiscal Bureau cancels some of the warrants and manually writes some warrants on the contingent revolving fund. This is done because the eligibility of recipients may change from the date the warrants are written by the State Auditor, to the date the warrants are mailed. SRS should reconcile the number of warrants written and signed by the State Auditor to the number of warrants mailed to recipients.

2. AFDC and Foster Care warrants are prepared from a computer tape which is updated each month. SRS does not reconcile the difference between the updated and original tapes to authorization forms for such changes.

3. The supervisor of the cash disbursements section in the SRS Fiscal Bureau picks up AFDC warrants from the Auditor's Office, and cancels and rewrites AFDC checks on the contingent revolving accounts. The Fiscal Bureau should separate these duties.

4. There are no written procedures for employees who review claims after they have been prepared. A written manual would assist both current and new employees in fulfilling their job duties.

5. Management Memo 2-1420.2 states if an accrual is estimated, the basis of the estimate must be logical and well-documented. During our testing of expenditure accruals at year-end, no documentation was attached to any of the estimated accruals.

6. Montana Operations Manual Section 2-0925.60 requires agencies to maintain a document numbering log to prevent duplication of numbers that are assigned to accounting documents. During fiscal year 1978-79, SRS assigned two transfer warrant claims with the same number in over 3,000 instances. This was caused by a misunderstanding during the ordering of the claims. Duplicate numbers cause confusion and inefficiency in the management of accounting records.

7. The list of authorized purchase order signers in the purchasing section is not current. This is a violation of SRS Administrative Manual Section ADM 1401-2. The list of persons authorized to approve travel claims is also outdated and incomplete.

Accounts Payable

1. SRS collects payments from food stamp recipients who receive overpayments. These collections are payable to the federal government. They are recorded in subsidiary detail records that are not reconciled to the related general ledger control account. At June 30, 1979, the detailed records differed from the control account by $2,409. Control over the account would be more effective if periodic reconciliations were performed.

2. Records for the protective services program are maintained in handkept ledgers as well as on SBAS. At fiscal year-end, the manual

records totalled $17,146, whereas SBAS reported $17,387. Reconciliation of these records would increase control over payables.

Inventories

1. The department has inadequate insurance coverage over food stamp inventories maintained under contract by Wells Fargo. During fiscal year 1978-79, there were several occasions when the food stamps in storage exceeded insurance coverage by amounts ranging from $250,000 to $3,000,000.

Plant, Property, and Equipment

1. No physical inventory of plant, property, and equipment was taken during our audit period.

2. Assets are not tagged or individually identified.

Data Processing

1. Proper data processing controls require that data file access be limited to those individuals authorized to process or maintain a system. SRS has not provided adequate access controls for confidential information contained in the on-line social services system. There are no security codes other than the initial sign-on passwords. When staff members transfer or terminate, no changes are made to the on-line sign-on security codes.

2. A log is kept at the Department of Administration (D of A) that lists any improper sign-on requests. SRS depends on D of A to tell them if there have been improper uses. D of A reviews the log periodically, but not on a regular basis.

Food Stamps

1. SRS has no procedures to ensure that counties use prenumbered receipts to account for collections on food stamp over-issuances. Each county purchases receipt books from local businesses. SRS is responsible for this money and should issue prenumbered receipts to the counties. We made this recommendation in the previous audit report.

RECOMMENDATION #43

We recommend that SRS implement procedures to correct the internal control weaknesses noted above.

ACCOUNTS RECEIVABLE

The balance sheet for SRS reports accounts receivable of nearly $5,640,500 at June 30, 1979. This includes:

--Amounts due from counties and the federal government for their shares of SRS expenditures.

--Travel advances to employees.

--Advance payments to providers.

--Dishonored checks.

--Loans from one SRS accounting entity to another.

--Amounts due from recipients of social services who were overpaid.

Deferred Accounts Receivable

The deferred accounts receivable account had a balance of $496,329 at June 30, 1979. It is used to record overpayments to recipients in the food stamp, Medicaid, and AFDC programs. There are significant control weaknesses over deferred accounts receivable because of inadequate recording, billing, and account aging procedures.

SRS establishes deferred accounts receivable based on repayment agreements signed by debtors. In our random sample, 7 of 49 accounts tested did not have signed repayment agreements. Based upon these results, we project that between 79 and 280 of the 1,100 deferred accounts receivable are not supported by repayment agreements. These receivables may not be valid since SRS has no assurance that the debtor intends to pay.

Twelve of 42 accounts tested were misstated. Seven accounts could not be tested because no repayment agreement was obtained. Misstatements were caused by the incorrect recording of collections by the Fiscal Bureau. Based upon statistical evaluation of the sample results, between 115 and 332 of the 1,100 account balances reported are in error.

The department has not established procedures for billing or aging deferred accounts receivable. On 47 percent of the accounts tested, no payments were received during fiscal year 1978-79. If the department billed periodically, collections would increase.

To identify old and inactive accounts, the department should prepare an aging schedule. This would assist the department in determining when to refer old accounts to a collection agent.

RECOMMENDATION #44

We recommend that SRS:

A. Analyze the balance in the deferred accounts receivable account and make adjustments for accounts that are incorrectly recorded.

B. Periodically bill amounts due the department.

C. Prepare an aging schedule for detecting old and inactive accounts.

TRAVEL ADVANCES TO EMPLOYEES AND OTHER PREPAYMENTS

The department charged the travel advance account for transactions that relate to another prepayment account. At June 30, 1979, the travel advance account had a balance of $109,124.

Our review indicated that this balance is overstated by $101,500, because it consists of prepayments to nursing homes which should have been reported in another prepayments account. Therefore, there is a corresponding understatement in the other prepayments account of $101,500.

SRS explained that at the time these prepayments were established the travel advance account had a control feature through the use of subsidiary detail ledger numbers not available in the other prepayments account. Therefore, other prepayments were placed in the travel advance account for control purposes. When this control feature became available in the other prepayments account, SRS failed to transfer the nursing home prepayments to the proper account.

RECOMMENDATION #45

We recommend that SRS analyze the balance in the travel advance account and make appropriate transfers to the other prepayment account.

CONTINGENT REVOLVING ACCOUNT

The department has an approved $100,000 contingent revolving fund which it uses primarily to make first payments to public assistance recipients. Policies governing the contingent account provide that each county director and one individual at SRS be authorized check signers.

We compared a list of authorized check signers at the Fiscal Bureau to an authorized list maintained by the bank. The bank list contained only 27 authorized check signers, while 57 individuals were authorized by the department to sign checks. Also, several authorization cards at the Fiscal Bureau were not dated. In our review of checks we were unable to determine if check signers were authorized.

There is up to a four month delay in removing or adding individuals from the authorized check signer list. This is caused in part by the method SRS uses to change the authorizations. The county welfare office notifies SRS of changes. The department sends a signature card to the welfare office, and once returned, the authorization card is forwarded to the bank. Because of the number of individuals authorized to sign checks and the large balance maintained in the account, it is essential that adequate control be maintained over signature authorization.

RECOMMENDATION #46

We recommend that SRS:

A. Update the authorized check signer list maintained by the bank.

B. Maintain an accurate and dated authorized check signer list at the Fiscal Bureau.

ALLOCATION OF ADMINISTRATIVE COSTS

The Developmental Disabilities Planning and Advisory Council (DDPAC) is not allocated any administrative costs in the federal reimbursement reports, even though the council uses the SRS Fiscal Bureau personnel and legal services.

DDPAC is a federally funded program. The council's share of administrative costs were approximately $11,000 during fiscal year 1978-79. Since the $11,000 was not allocated to DDPAC, other programs within SRS, including state financed programs, absorbed the cost. As such, SRS has not maximized the amount of federal funds available to the department.

RECOMMENDATION #47

We recommend that SRS allocate a portion of its administrative costs to the Developmental Disabilities Planning and Advisory Council.

PRIOR AUDIT RECOMMENDATIONS

The reports relating to our fiscal year 1975-76 audit of the department contained 359 recommendations. Of these 359, the department has implemented 196 recommendations, partially implemented 38, and had not implemented 61. Nineteen recommendations are no longer applicable and 45 were not tested during the most recent audit.

Various sections of this report include discussion of those recommendations on which the department has not taken adequate corrective action.

AGENCY RESPONSE

	Total	Concur	Do Not Concur	Conditionally Concur
Aging	8	8		
Social Services	9	9		
Veteran's Affairs	2	1	1	
Assistance Payments	1		1	
Grant-in-Aid	4	4		
AFDC	11	10		1
Non-Resident General Assistance	4	3	1	
Foster Care	22	22		
Food Stamps/Food Distribution	29	29		
Medicaid	55	52	2	1
Vocational Rehabilitation	38	38		
Visual Services	45	45		
Developmental Disabilities	67	65	2	
Financial Areas				
General	3	3		
Payroll	5	5		
Expenditures	3	3		
Accounts Payable	2	2		
Accounts Receivable	6	6		
Data Processing	13	13		
Internal Control	32	8	_	24
Total	359	326	7	26

AGENCY ACTION

	Implemented	Not Implemented	Partially Implemented	Not Tested	No Longer Applicable
Aging	2	1	3	2	
Social Services	5	2		2	
Veteran's Affairs	1	1			
Assistance Payments			1		
Grant-in-Aid	2	1	1		
AFDC	4	3	4		
Non-Resident General Assistance	1	1	2		
Foster Care	3	9	4	5	1
Food Stamps/Food Distribution	25	2	1		1
Medicaid	34	6	9	3	3
Vocational Rehabilitation	18	6		13	1
Visual Services	31	2		11	1
Developmental Disabilities	35	11	9	8	4
Financial Areas					
General	2			1	
Payroll	3	1			1
Expenditures	2		1		
Accounts Payable	2				
Accounts Receivable	4		1		1
Data Processing	5	6			2
Internal Control	17	9	2		4
Total	196	61	38	45	19

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

MORRIS L. BRUSETT, C.P.A.
LEGISLATIVE AUDITOR

ELLEN FEAVER, C.P.A.
DEPUTY LEGISLATIVE AUDITOR

JOHN W. NORTHEY
STAFF LEGAL COUNSEL

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Balance Sheet of the Montana Department of Social and Rehabilitation Services (SRS) as of June 30, 1979, and the related statements of Revenue Compared with Revenue Estimates, Expenditures Compared with Appropriations, and Changes in Fund Balance for the General Fund, Federal and Private Revenue Fund, Federal and Private Grant Clearance Fund, Revolving Fund and Agency Fund for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The department does not maintain adequate records of its general fixed assets and, accordingly, a Statement of General Fixed Assets, required by generally accepted accounting principles, is not included in this report.

The department did not accrue an estimated $6,236,000 in Medicaid expenditures for services rendered but not yet billed at June 30, 1979. This misstates accrued support expenditures on the Balance Sheets of the General Fund and the Federal and Private Grant Clearance Fund by an estimated $2,422,000 and $3,804,000, respectively. SRS also failed to accrue $5,334,000 in estimated medicaid expenditures at fiscal year-end 1978. These unaccrued expenditures were charged against the fiscal year 1979 appropriation. Therefore, fiscal year 1979 expenditures are understated on the Statement of Expenditures Compared with Appropriations in the General Fund and the Federal and Private Grant Clearance Fund by approximately $352,000 and $550,000, respectively.

At June 30, 1979, the department erroneously debited an income account and credited the receipts collected in advance account for $57,034 for the Agency Fund. The department did not correct the error, which resulted in misstatement of liabilities on the Balance Sheet and misstatement of revenue on the Statements of Changes in Fund Balance and Revenue Compared with Revenue Estimates of the Agency Fund.

The department does not have adequate recording, billing, and account aging procedures for deferred accounts receivable. This account represents various SRS assistance programs' client payments which were determined to be in excess of the amounts to which the clients were entitled. Because of a lack of records concerning these accounts, it was not practical for us to determine the exact dollar amount of accounts recorded in error; however, we believe the total number of accounts in error to be material to the Federal and Private Grant Clearance Fund balance sheet.

In our opinion, because of the effects of the matters discussed in paragraphs three, four and five, the financial statements listed below do not present fairly the financial position at June 30, 1979, and the results of operations and changes in fund balance of such funds of the Department of Social and Rehabilitation Services for the year then ended in conformity with generally accepted accounting principles.

Statement Name	Fund
Balance Sheet	General Fund Federal and Private Grant Clearance Fund Agency Fund
Statement of Revenue Compared with Revenue Estimates	Agency Fund
Statement of Changes in Fund Balance	Federal and Private Grant Clearance Fund Agency Fund

In our opinion, the financial statements listed below present fairly the financial position at June 30, 1979, and the results of operations, and changes in fund balance of such funds of the Department of Social and Rehabilitation Services for the year then ended in conformity with generally accepted accounting principles which, except for the change with which we concur, to accrue federal cost reimbursable grants as described in Note 7 to the financial statements, have been applied on a basis consistent with that of the preceding year.

Statement Name	Fund
Balance Sheet	Federal and Private Revenue Fund Revolving Fund
Statement of Revenue Compared with Revenue Estimates	General Fund Federal and Private Revenue Fund Federal and Private Grant Clearance Fund Revolving Fund
Statement of Expenditures Compared with Appropriations	General Fund Federal and Private Revenue Fund Federal and Private Grant Clearance Fund Revolving Fund Agency Fund
Statement of Changes in Fund Balance	General Fund Federal and Private Revenue Fund Bond Proceeds and Insurance Clearance Fund Revolving Fund

The accompanying Detail Schedule of Revenue Compared with Revenue Estimates for Federal Grants, the Schedule of Expenditures by Object, and the items titled "Combined Total (Memorandum Only)" on the Balance Sheet, the Statement of Revenue Compared with Revenue Estimates and the Statement of Expenditures Compared with Appropriations are not necessary for a fair presentation of the financial statements but are presented as supplemental information. This information has been subjected to the tests and other auditing procedures applied in our examination of the financial statements and, in our opinion, except as described in paragraphs three, four and five, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

February 29, 1980

DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES
ALL FUNDS
BALANCE SHEET
JUNE 30, 1979

	General Fund	Federal and Private Revenue Fund	Federal and Private Grant Clearance Fund
ASSETS			
Cash	$ 101,783	$1,670,432	$2,433,461
Deferred accounts receivable			496,329
Federal cost reimbursement receivable (Note 7)		1,341,443	2,388,528
Accounts receivable	1,067	406	3,795
Notes receivable	100,000		
Inter-entity loans receivable		300,000	300,000
Transfers to STIP principal			
Expense advances to employees	109,124		
Other prepayments	126,746		
Appropriation receivable to pay Accounts Payable and Accrued Expenditures	2,956,289		
Total assets	$3,395,009	$3,312,281	$5,622,113
LIABILITIES AND FUND BALANCES			
Accounts payable	$1,465,178	$ 562,123	$1,949,831
Inter-entity loans payable			300,000
Accrued expenditures	1,492,894	110,699	1,532,827
Account for property held in trust			
Receipts collected in advance		253,975	349,918
Other liabilities			
Total liabilities	2,958,072	926,797	4,132,576
Reserve for deferred accounts receivable			496,329
Reserve for expense advances to employees	109,124		
Reserve for accounts receivable	1,067		
Reserve for notes receivable	100,000		
Reserve for other prepayments	126,746		
Reserve for contingent revolving fund advances from the Department of Administration	100,000		
Fund balance	-0-	2,385,484	993,208
Total liabilities and fund balance	$3,395,009	$3,312,281	$5,622,113

The accompanying notes are an integral part of this statement.

Revolving Fund	Agency Fund	Combined Totals (Memorandum Only)
$364,862	$106,905	$ 4,677,443
		496,329
10,991		3,740,962
372,692	100	378,060
		100,000
		600,000
	89,274	89,274
		109,124
		126,746
		2,956,289
$748,545	$196,279	$13,274,227
$191,156	$ 16,397	$ 4,184,685
300,000		600,000
1,592	23,549	3,161,561
	147,056	147,056
	57,034	660,927
16,445		16,445
509,193	244,036	8,770,674
		496,329
		109,124
		1,067
		100,000
		126,746
		100,000
239,352	(47,757)	3,570,287
$748,545	$196,279	$13,274,227

DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES
ALL FUNDS
STATEMENT OF REVENUE COMPARED WITH REVENUE ESTIMATES
FISCAL YEAR ENDED JUNE 30, 1979

Revenue Description	General Fund Estimated	General Fund Actual	Federal and Private Revenue Fund Estimated	Federal and Private Revenue Fund Actual
Reimbursements				
Public Welfare Estate Lien	$ 35,000	$ 20,582		
County Share of Expenditures				
Refunds from Individuals	218,920	168,372		
Fiduciary and Trust				
Private Deposit				
Federal Grants				
Child Welfare			$ 10,415	$ 56,044
Aging and the Aged			298,940	208,650
Vocational Rehabilitation			2,435,941	1,619,158
Developmental Disabilities			150,000	63,350
Medical Assistance			1,703,201	3,083,819
Eligibility Determination			784,300	763,255
Other Public Assistance			8,368,728	7,980,537
Other Federal Assistance			842,500	958,535
Income Collections and Transfers	2,000		14,746	8,035
Miscellaneous				
Receipts	22,000	7,294		
Gifts			10,000	
Donations and Third-Party Receipts				
Nonbudgeted Revenue and Income				
Total Revenue and Income	$277,920	$196,248	$14,618,771	$14,741,383

The accompanying notes are an integral part of this statement.

Federal and Private Grant Clearance Fund		Revolving Fund		Agency Fund		Combined Totals (Memorandum Only)	
Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual
$ 67,000	$ 30,064	$ 20,000	$ 829			$ 122,000	$ 51,475
		5,660,000	4,602,711			5,660,000	4,602,711
293,280	342,269	83,800	73,141			596,000	583,782
3,700						3,700	
308,000	397,317					318,415	453,361
3,057,101	3,147,484					3,356,041	3,356,134
3,022,000	2,002,673					5,457,941	3,621,831
40,342						190,342	63,350
39,186,000	36,926,532					40,889,201	40,010,351
						784,300	763,255
16,639,481	13,714,411	65,000	72,955			25,073,209	21,767,903
300,000	40,478					1,142,500	999,013
25,700	26,189			190,000	138,944	232,446	173,168
34,000	17,726					56,000	25,020
						10,000	
591,000	521,449					591,000	521,449
	8,096						8,096
$63,567,604	$57,174,688	$5,828,800	$4,749,636	$190,000	$138,944	$84,483,095	$77,000,899

DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES
ALL FUNDS
STATEMENT OF EXPENDITURES COMPARED WITH APPROPRIATIONS
FISCAL YEAR ENDED JUNE 30, 1979

	Assistance Payment Program	Social Services Program Current Year	Social Services Program Prior Year
GENERAL FUND			
Appropriations			
Prior Year	$ -0-	$ -0-	$190,500
Current Year	6,852,992	1,161,578	-0-
Budget Amendments	519,682	281,000	-0-
Adjusted Appropriations	7,372,674	1,442,578	190,500
Expenditures			
Prior Year	-0-	-0-	27,636
Current Year	6,988,319	1,290,879	29,626
Unexpended Balance	$ 384,355	$ 151,699	$133,238
FEDERAL AND PRIVATE REVENUE FUND			
Appropriations	$ 406,460	$3,790,003	
Budget Amendments	103,596	189,969	
Adjusted Appropriations	510,056	3,979,972	
Expenditures	505,292	3,768,654	
Unexpended Balance	$ 4,764	$ 211,318	
FEDERAL & PRIVATE GRANT CLEARANCE FUND			
Appropriations	$10,442,799	$2,343,997	
Budget Amendments	11,708	-0-	
Adjusted Appropriations	10,454,507	2,343,997	
Expenditures	9,891,096	2,390,432	
Less: Nonappropriated Expenditures (Note 4)	106,405	46,743	
Appropriated Expenditures	9,784,691	2,343,689	
Unexpended Balance	$ 669,816	$ 308	
REVOLVING FUND			
Appropriations	$ 1,954,472	$ 993,172	
Budget Amendments	(97,000)	16,250	
Adjusted Appropriations	1,857,472	1,009,422	
Expenditures	1,789,758	838,242	
Unexpended Balance	$ 67,714	$ 171,180	
AGENCY FUND			
Appropriations			
Budget Amendments			
Adjusted Appropriations			
Expenditures			
Unexpended Balance			
COMBINED TOTAL (MEMORANDUM ONLY)			
Appropriations			
Prior Year	$ -0-	$ -0-	$190,500
Current Year	19,656,723	8,288,750	-0-
Budget Amendments	537,986	487,219	-0-
Adjusted Appropriations	20,194,709	8,775,969	190,500
Expenditures			
Prior Year	-0-	-0-	27,636
Current Year	19,174,465	8,288,207	29,626
Less: Nonappropriated Expenditures	106,405	46,743	-0-
Appropriated Expenditures	19,068,060	8,241,464	57,262
Unexpended Balance	$ 1,126,649	$ 534,505	$133,238

The accompanying notes are an integral part of this statement.

Eligibility Determination Program	Administrative and Support Program	Medical Assistance Program	Vocational Rehabilitation Program
$ -0-	$ -0-	$ -0-	$ -0-
18,000	362,405	15,871,396	825,298
7,000	(3,541)	6,493,531	-0-
25,000	358,864	22,364,927	825,298
-0-	-0-	-0-	-0-
24,309	344,469	22,223,941	801,179
$ 691	$ 14,395	$ 140,986	$ 24,119
$1,690,300	$1,622,912	$ 1,354,142	$1,332,772
326,271	(6,874)	727,663	(34,000)
2,016,571	1,616,038	2,081,805	1,298,772
1,963,074	1,545,185	1,870,615	1,151,236
$ 53,497	$ 70,853	$ 211,190	$ 147,536
	$ -0-	$23,245,906	$2,187,717
	-0-	13,174,390	1,000
	-0-	36,420,296	2,188,717
	3,789	33,808,860	1,905,588
	3,789	4,353	7,505
	-0-	33,804,507	1,898,083
	-0-	$ 2,615,789	$ 290,634
$1,310,100	$ 471,665		
425,276	-0-		
1,735,376	471,665		
1,668,595	429,597		
$ 66,781	$ 42,068		
			$ 160,000
			40,000
			200,000
			192,157
			$ 7,843
$ -0-	$ -0-	$ -0-	$ -0-
3,018,400	2,456,982	40,471,444	4,505,787
758,547	(10,415)	20,395,584	7,000
3,776,947	2,446,567	60,867,028	4,512,787
-0-	-0-	-0-	-0-
3,655,978	2,323,040	57,903,416	4,050,160
-0-	3,789	4,353	7,505
3,655,978	2,319,251	57,899,063	4,042,655
$ 120,969	$ 127,316	$ 2,967,965	$ 470,132

DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES
ALL FUNDS
STATEMENT OF EXPENDITURES COMPARED WITH APPROPRIATIONS
FISCAL YEAR ENDED JUNE 30, 1979
(Continued)

	Disability Determination Program	Youth Development Program	Visual Services Program
GENERAL FUND			
Appropriations			
Prior Year		$ -0-	$ -0-
Current Year		199,996	199,250
Budget Amendments		-0-	-0-
Adjusted Appropriations		199,996	199,250
Expenditures			
Prior Year		-0-	-0-
Current Year		191,099	160,067
Unexpended Balance		$ 8,897	$ 39,183
FEDERAL AND PRIVATE REVENUE FUND			
Appropriations	$780,627	$ 316,983	$382,649
Budget Amendments	34,000	237	-0-
Adjusted Appropriations	814,627	317,220	382,649
Expenditures	802,728	244,203	356,174
Unexpended Balance	$ 11,899	$ 73,017	$ 26,475
FEDERAL & PRIVATE GRANT CLEARANCE FUND			
Appropriations		$ 651,904	$214,354
Budget Amendments		61,509	-0-
Adjusted Appropriations		713,413	214,354
Expenditures		644,640	179,814
Less: Nonappropriated Expenditures (Note 4)		(11)	211
Appropriated Expenditures		644,651	179,603
Unexpended Balance		$ 68,762	$ 34,751
REVOLVING FUND			
Appropriations			
Budget Amendments			
Adjusted Appropriations			
Expenditures			
Unexpended Balance			
AGENCY FUND			
Appropriations			
Budget Amendments			
Adjusted Appropriations			
Expenditures			
Unexpended Balance			
COMBINED TOTAL (MEMORANDUM ONLY)			
Appropriations			
Prior Year	$ -0-	$ -0-	$ -0-
Current Year	780,627	1,168,883	796,253
Budget Amendments	34,000	61,746	-0-
Adjusted Appropriations	814,627	1,230,629	796,253
Expenditures			
Prior Year	-0-	-0-	-0-
Current Year	802,728	1,079,942	696,055
Less: Nonappropriated Expenditures	-0-	(11)	211
Appropriated Expenditures	802,728	1,079,953	695,844
Unexpended Balance	$ 11,899	$ 150,676	$100,409

Developmental Disabilities Program	Developmental Disabilities Planning and Advisory Council	Aging Services Program	Veterans Affairs Program	Fund Totals
$ -0-	$ -0-	$ -0-	$ -0-	$ 190,500
4,903,200	18,500	229,823	361,317	31,003,755
-0-	-0-	-0-	-0-	7,297,672
4,903,200	18,500	229,823	361,317	38,491,927
-0-	-0-	-0-	-0-	27,636
4,871,855	18,132	222,015	361,268	37,527,158
$ 31,345	$ 368	$ 7,808	$ 49	$ 937,133
$ 558,434	$109,658	$ 195,558		$ 12,540,498
-0-	-0-	1,900		1,342,762
558,434	109,658	197,458		13,883,260
498,815	80,733	191,859		12,978,568
$ 59,619	$ 28,925	$ 5,599		$ 904,692
$2,633,828	$ 40,342	$3,173,320		$ 44,934,167
21,700	606	600,000		13,870,913
2,655,528	40,948	3,773,320		58,805,080
2,585,725	70,616	3,790,394		55,270,954
	29,668	17,273		215,936
2,585,725	40,948	3,773,121		55,055,018
$ 69,803	$ -0-	$ 199		$ 3,750,062
				$ 4,729,409
				344,526
				5,073,935
				4,726,192
				$ 347,743
				$ 160,000
				40,000
				200,000
				192,157
				$ 7,843
$ -0-	$ -0-	$ -0-	$ -0-	$ 190,500
8,095,462	168,500	3,598,701	361,317	93,367,829
21,700	606	601,900	-0-	22,895,873
8,117,162	169,106	4,200,601	361,317	116,454,202
-0-	-0-	-0-	-0-	27,636
7,956,395	169,481	4,204,268	361,268	110,695,029
-0-	29,668	17,273	-0-	215,936
7,956,395	139,813	4,186,995	361,268	110,506,729
$ 160,767	$ 29,293	$ 13,606	$ 49	$ 5,947,473

DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES
ALL FUNDS
STATEMENT OF CHANGES IN FUND BALANCE
FISCAL YEAR ENDED JUNE 30, 1979

	General Fund	Federal and Private Revenue Fund	Federal and Private Grant Clearance Fund	Bonds Proceeds and Insurance Clearance Fund	Revolving Fund	Agency Fund
Balance at July 1, 1978	$ -0-	$ 570,560	$ (618,856)	$2,976	$ (51,755)	$ 5,384
Additions:						
Appropriations	38,491,927					
Revenue and income	196,248	14,741,383	57,174,688		4,749,636	138,944
Accounting entity transfer	2,976			(2,976)		
Transfers to consolidated entity		367,201	(3,280)			
Prior year expenditure adjustments	443,799	(42,642)	(307,082)		(15)	3,280
Deposits of prior year revenue and income to the general fund	123					
Total balance plus additions	39,135,073	15,636,502	56,245,470	-0-	4,697,866	147,608
Deductions:						
Expenditures	37,527,158	12,978,568	55,270,954		4,726,192	192,157
Deposits to the general fund	199,224					
Prior year revenue and income adjustments	123	272,450	(18,692)		(267,678)	3,208
Expenditures charged to prior year appropriations	471,435					
General fund reversion	937,133					
Total deductions	39,135,073	13,251,018	55,252,262	-0-	4,458,514	195,365
Balance at June 30, 1979	$ -0-	$ 2,385,484	$ 993,208	$-0-	$ 239,352	$(47,757)

The accompanying notes are an integral part of this statement.

DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES

Notes to the Financial Statements

Fiscal Year Ended June 30, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System (SBAS).

The state of Montana utilizes the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded on the basis of valid obligations. Revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the fiscal period and are not received at the normal time of receipt.

Inventories

There is no recorded asset for supplies inventory. Supplies are expensed at the time of purchase.

General Fixed Assets

The financial statements do not reflect the cost of general fixed assets. General fixed assets purchased are recorded as expenditures in the various funds at the time of purchase. There are no accounting controls for the general fixed assets group of accounts. Depreciation is not provided on general fixed assets.

Vacation and Sick Leave

Liabilities incurred because of employees' unused vacation and sick pay are not recorded. The related expenditures are recorded when paid. Permanent employees are allowed to accumulate and carryover a maximum of two times their annual accumulation of vacation into 90 days of a new calendar year. Upon termination, qualifying employees having unused accumulated vacation and sick leave, receive 100 percent payment for vacation and 25 percent payment for sick leave. The liability amount associated with unused accumulated vacation and sick leave at June 30, 1979 is maintained on an hourly basis rather than by dollar amount. The monetary liability is not calculated until an employee terminates.

2. EMPLOYEES' RETIREMENT SYSTEM

The department's employees are covered by the Public Employees' Retirement System (PERS). Under the plan, SRS contributes 6.2 percent of employees' gross wages and the employee contributes 6 percent of his gross wages to PERS. During fiscal year 1978-79, the department contributed $395,232.

The last actuarial study on PERS was performed at June 30, 1978. At this time the system was actuarially sound. The SRS share of the PERS actuarial deficiency was not readily available.

3. LEASES

The department entered into a sublease agreement for their headquarters building on February 28, 1977. This sublease is between SRS and the Department of Administration.

The sublease is for a period of 20 years commencing November 1, 1976. The monthly rental is $22,347, based upon 48,682 square feet at a rate of $5.51 per square foot per year. This rate is subject to annual adjustment to reflect changes in costs due to assessments, insurance, utilities, repairs, and maintenance.

4. NON-APPROPRIATED EXPENDITURES

The department made a limited number of expenditures from the Federal and Private Grant Clearance Fund without an appropriation as permitted by state law. However, most of the department's expenditures from this fund are administratively appropriated.

5. INTER-ENTITY LOANS RECEIVABLE/PAYABLE

In 1974, a $300,000 loan was made to the Revolving Fund from the Federal and Private Grant Clearance Fund. Cash flow problems continuously occur in the Revolving Fund due to the nature of the county billings. Collections are received from the counties approximately six weeks after the expenditures are made by SRS.

In 1977, a $300,000 loan was made to the Federal and Private Grant Clearance Fund from the Federal and Private Revenue Fund. Cash flow problems occur in the Federal and Private Grant Clearance Fund because of time delays in the federal reimbursement process.

6. <u>FOOD STAMP INVENTORY</u>

At June 30, 1979, Wells Fargo inventoried $3,777,500 of food stamps. Since the food stamps are assets of the federal government, they are excluded from the financial statements of SRS.

Wells Fargo contracts with SRS to store these food stamps and is liable by contract for any amount in storage up to $5 million. SRS is ultimately liable to the federal government for the food stamps.

7. <u>CORRECTION OF AN ERROR</u>

During fiscal year 1978-79, the Department of Administration changed the state's accounting policy regarding revenue to require that on federal cost reimburseable grants, where expenditures have been made and the reimbursement has not been received by fiscal year end, revenue should be accrued. As a result, SRS accrued revenues of $3,740,962 in an account titled Federal Cost Reimbursement Receivable, as shown on the balance sheet for the Federal and Private Revenue Fund, the Federal and Private Grant Clearance Fund and the Revolving Fund. This account does not appear on the fiscal year 1977-78 financial statements.

We concur with the change in accounting principle. It is in accordance with generally accepted accounting principles.

8. COST DISALLOWANCES

As a result of audits performed by the U.S. Department of Health, Education and Welfare (HEW), certain costs incurred by SRS and paid from federal funds have been disallowed. SRS is currently seeking reconsideration of these disallowances. In those instances where the decisions are adverse to SRS, appeals or court action reviewing the decisions is likely. The schedule below describes the most significant disallowances and the dollar amount of each.

Description	Amount Disallowed
Disallowances of federal matching under Title XIX of the Social Security Act (Hospital Disallowances)	$1,402,413
Disallowance of the federal matching under Title XX of the Social Security Act for Training Expenditures	$ 397,801

9. SUPPLEMENTAL SECURITY INCOME PAYMENTS

The state of Montana, in certain instances, supplements the payments made to individuals under the federally administered Supplemental Security Income Program. The Social Security Administration has billed the department $382,809 over and above what the state has paid for supplementation during the period January 1, 1974, through September 30, 1977. The department contends the amounts are not owed and a case-by-case review, in accordance with federal requirements, is currently underway to attempt to resolve the differences.

DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES
ALL FUNDS
SCHEDULE OF EXPENDITURES BY OBJECT
FISCAL YEAR ENDED JUNE 30, 1979

Expenditure Object	Assistance Payment Program	Social Services Program	Eligibility Determination Program
Personal Services			
Salaries	$ 385,276	$4,234,531	$3,094,078
Other Compensation			
Employee Benefits (Note 2)	60,563	678,950	480,888
Total Personal Services	445,839	4,913,481	3,574,966
Operating Expenses			
Contracted Services	212,558	98,175	
Supplies and Materials	21,010	7,439	75
Communications	29,764	98,222	181
Travel	27,765	340,881	80,418
Rent	63,494	111,829	32
Utilities		16	
Repair and Maintenance	12,706	3,107	41
Other Expenses	7,644	3,604	265
Total Operating Expenses	374,941	663,273	81,012
Equipment	20,069	6,151	
Grants			
From State Sources			
From Federal Sources			
From Other Sources		1,152,477	
Total Grants		1,152,477	
Benefits and Claims	18,328,752	1,583,108	
Transfers			
Accounting Entity Transfers	4,864	(657)	
Total Expenditures	$19,174,465	$8,317,833	$3,655,978

Administrative and Support Program	Medical Assistance Program	Vocational Rehabilitation Program	Disability Determination Program
$1,358,105	$ 272,097	$ 999,386	$394,757
202,260	41,283	157,690	57,629
1,560,365	313,380	1,157,076	452,386
97,129	1,729,513	31,398	248,951
76,398	10,282	9,453	2,133
182,010	11,396	42,096	24,318
55,445	15,901	74,074	8,208
234,736	35,157	82,665	37,398
8,939	21	2,524	982
90,897	1,468	2,433	1,068
745,554	1,803,738	244,643	323,058
11,765	468	11,385	2,491
		6,509	
		104,574	
		111,083	
5,356	55,781,477	2,523,152	24,793
	4,353	2,821	
$2,323,040	$57,903,416	$4,050,160	$802,728

DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES
ALL FUNDS
SCHEDULE OF EXPENDITURES BY OBJECT
FISCAL YEAR ENDED JUNE 30, 1979
(Continued)

Expenditure Object	Youth Development Program	Visual Services Program	Developmental Disabilities Program
Personal Services			
Salaries	$ 225,523	$315,659	$ 524,622
Other Compensation			
Employee Benefits (Note 2)	33,538	49,542	79,945
Total Personal Services	259,061	365,201	604,567
Operating Expenses			
Contracted Services	19,938	5,002	42,570
Supplies and Materials	1,982	1,309	9,604
Communications	10,733	6,868	27,849
Travel	24,193	25,209	80,650
Rent	14,753	27,783	57,538
Utilities			
Repair and Maintenance	269	737	523
Other Expenses	1,286	467	5,487
Total Operating Expenses	73,154	67,375	224,221
Equipment	424	115	27,461
Grants			
From State Sources			57,606
From Federal Sources	68,459		
From Other Sources	441,935		
Total Grants	510,394		57,606
Benefits and Claims	236,920	263,153	7,042,540
Transfers			
Accounting Entity Transfers	(11)	211	
Total Expenditures	$1,079,942	$696,055	$7,956,395

Developmental Disabilities Planning and Advisory Council	Aging Services Program	Veterans' Affairs Program	Combined Total
$ 11,869	$ 171,321	$256,459	$ 12,243,683
		1,000	1,000
1,997	26,214	41,199	1,911,698
13,866	197,535	298,658	14,156,381
52,880	3,263	8,404	2,549,781
4,075	212	1,354	145,326
3,581	6,440	10,178	453,636
21,826	22,883	21,672	799,125
3,061	13,198	19,038	700,682
			16
	158	139	30,146
276	200	1,050	116,145
85,699	46,354	61,835	4,794,857
810	243	775	82,157
	149,845		207,451
59,712	2,987,190		3,121,870
3,288	123,833		1,826,107
63,000	3,260,868		5,155,428
6,106	697,795		86,493,152
	1,473		13,054
$169,481	$4,204,268	$361,268	$110,695,029

DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES
DETAIL SCHEDULE OF REVENUE COMPARED WITH
REVENUE ESTIMATES FOR FEDERAL GRANTS
FISCAL YEAR ENDED JUNE 30, 1979

	Federal and Private Revenue Fund Estimated	Actual
FEDERAL GRANTS		
Child Welfare		
Youth Development		
Child Welfare Services		
Child Abuse and Neglect	$ 10,415	$ 56,044
Aging and the Aged		
Special Programs	256,740	191,150
Special Nutrition Programs		
Training Program	20,000	
Title III, Section 208, Model Projects Program		
Senior Citizens' Centers		
Action-Foster Grandparent Program	22,200	17,500
Vocational Rehabilitation		
Basic Support	2,128,941	1,434,658
Services for Social Security Disability Beneficiaries	307,000	184,500
Special Projects		
Developmental Disabilities		
Basic Support	150,000	63,350
Special Projects		
Medical Assistance Programs	1,703,201	3,083,819
Other Public Assistance		
State & Local Training Assistance	374,718	177,543
Public & Social Services Assistance	6,014,010	6,148,163
Maintenance Assistance	1,480,000	1,272,114
Indo-Chinese Refugee		
Work Incentive Programs	500,000	382,717
Federal Assistance		
Food Distribution	105,000	188,500
Food Stamps	700,000	716,653
CETA	37,500	53,382
Disability Determination		
Reimbursement	784,300	763,255
Federal Grants Total	$14,594,025	$14,733,348

Federal and Private Grant Clearance Fund		Total	
Estimated	Actual	Estimated	Actual
$ 50,000	$ 58,500	$ 50,000	$ 58,500
258,000	338,817	258,000	338,817
		10,415	56,044
950,000	1,191,020	1,206,740	1,382,170
1,750,000	1,554,229	1,750,000	1,554,229
20,000	35,000	40,000	35,000
27,000	56,400	27,000	56,400
100,000	200,000	100,000	200,000
210,101	110,835	232,301	128,335
2,592,300	1,654,045	4,721,241	3,088,703
287,000	303,628	594,000	488,128
142,700	45,000	142,700	45,000
		150,000	63,350
40,342		40,342	
39,186,000	36,926,532	40,889,201	40,010,351
950,000	972,304	1,324,718	1,149,847
4,690,000	4,295,145	10,704,010	10,443,308
10,638,000	8,135,640	12,118,000	9,407,754
168,000	275,619	168,000	275,619
193,481	35,703	693,481	418,420
		105,000	188,500
300,000	40,478	1,000,000	757,131
		37,500	53,382
		784,300	763,255
$62,552,924	$56,228,895	$77,146,949	$70,962,243

RESPONSE

DEPARTMENT OF
SOCIAL AND REHABILITATION SERVICES

THOMAS L. JUDGE, GOVERNOR

P O BOX 4210

STATE OF MONTANA

HELENA, MONTANA 59601

August 1, 1980

Mr. Morris L. Brusett
Legislative Auditor
Capitol Building
Helena, Montana 59601

Dear Mr. Brusett:

As requested by your July 22, 1980 letter, attached, in original, is the response of the Department of Social and Rehabilitation Services to the audit report for the fiscal year ended June 30, 1979.

The response addresses each individual recommendation and is hopefully in the proper format to facilitate printing.

We appreciate the cooperative attitude of your staff and their willingness to consider our input at the exit conference.

If any questions remain, please contact Ben Johns of my staff.

Very truly yours,

Jon A. Meredith

Jon Meredith
Acting Director

JM:jj

Attachment

"AN EQUAL OPPORTUNITY EMPLOYER"

CURRENT AUDIT RECOMMENDATIONS
OLA - AUDIT REPORT FY 79

RECOMMENDATION NO. 1

We recommend that SRS comply with the relative responsibility statute.

AGENCY COMMENTS

Conditionally Concur:

In August of 1979, the Department of SRS developed new procedures for collection of relative responsibility information - new manual material and a new EA-21. The cases of noncooperation were turned over to the respective county attorneys. To date there have been no prosecutions.

The Department cannot deny assistance when a household refuses to divulge the whereabouts of responsible relatives except absent parents of children involved.

It is the responsibility of the County Attorney in each county to prosecute cases involving relative responsibility.

It is not cost effective to enforce the relative responsibility laws on the AFDC Program. The law names responsible relatives as spouses, mother, father, son and daughter. In an Aid to Dependent Child situation, an absent or unemployed parent is eligible for assistance for the children in the household. Under present Title IVD regulations, the state is vigorously prosecuting absent parents. Any income the parent or parents who are in the home may have is presently counted as income available to the family and the assistance grant is reduced by the amount of income.

The only possible source of income from a relative is the grandparents of the children. They would only be responsible for a mother or father of the children in the household. The amount of assistance paid for one person in a household ranges from $39 to $72 per month; dependent upon the number of persons in the household. The cost of prosecuting the case would exceed by far the amount of assistance provided. These figures do not include the staff time it takes to process the material to go to the County Attorney.

We have been told by some County Attorney's that this law is contrary to the Emancipated Minor Law which erases financial responsibility for parents to certain emancipated children.

However, SRS will again seek to remove the relative responsibility statutes for ADC but in the meantime we will continue with our attempts to collect and turn the information over to the County Attorney.

RECOMMENDATION NO. 2

We recommend that SRS require the fiscal intermediary to:

A. Have a formal, independent service center review and an application review completed on the Medicaid claims processing system.

B. Establish a strict segregation of functions between computer operators and computer programmers.

C. Establish controlled access to the computer room limiting access to those employees who are necessary for operating the computer.

D. Maintain adequate documentation for the programs in the Medicaid system.

E. Provide an off-site back-up tape system for the Medicaid system.

F. Maintain a copy of the problem lists for proper audit trail.

AGENCY COMMENTS

Concur:

These recommendations will be included as requirements in the fiscal agent contract which is now being prepared for bidding.

RECOMMENDATION NO. 3

We recommend that SRS:

A. Require the Montana Foundation for Medical Care to provide the contracted services which include:

   1. correcting all coding errors;

   2. submitting claims which are questionable or greater than the established standard to the peer review process; and

   3. providing meaningful utilization review reports.

B. Monitor the provisions of its contract with the Montana Foundation for Medical Care.

AGENCY COMMENTS

Concur:

The contract with the Foundation is due for renewal. Services to be rendered will be clarified, including the three services specified in this recommendation. A detailed monitoring and reporting clause will be included in the contract. The Medical Assistance Section will designate a staff person and allocate sufficient person/hours to monitor this contract.

RECOMMENDATION NO. 4

We recommend that SRS establish and implement a method of follow-up on eligibility errors found by its Program Integrity Bureau to ensure that corrective action is taken by the counties.

AGENCY COMMENTS

Concur:

SRS has reorganized its Economic Assistance Division to include a Field Services Bureau. The Bureau is in the process of hiring five field supervisors, who will among other duties follow-up on eligibility errors to ensure that corrective action is taken by the counties.

RECOMMENDATION NO. 5

We recommend that SRS:

A. Accrue Medicaid expenditures in accordance with generally accepted accounting principles and state accounting policy.

B. Seek a one-time legislative appropriation to allow for the proper accrual of Medicaid expenditures.

AGENCY COMMENTS

Conditionally Concur:

A. Conditionally Concur:

The accrual of Medicaid expenditures will be made provided the Legislative appropriation referred to in Part B is enacted.

B. Concur:

The Department will again seek a one-time appropriation from the Legislature to accrue the Medicaid liability.

RECOMMENDATION NO. 6

We recommend that SRS perform audits of nursing home providers in accordance with generally accepted auditing standards, including the AICPA Industry Audit Guide, Medicare Audit Guide.

AGENCY COMMENTS

Concur:

The SRS Audit Bureau is currently revising its Nursing Home Audit Program to eliminate weaknesses identified by the LAO. In addition, a Comprehensive Professional Development Program has been initiated which emphasizes the application of Generally Accepted Auditing Standards and encourages audit staff to become certified by the Montana Society of Certified Public Accountants.

RECOMMENDATION NO. 7

We recommend that SRS:

A. Require nursing homes to maintain adequate and auditable records supporting all cost report items.

B. Establish standard criteria for determining the reasonableness of expenses claimed by the nursing homes.

C. Establish nursing home permanent files containing relevant accounting data to be used during audits of nursing homes and in the rate determination process.

AGENCY COMMENTS

A. Concur:

Management letters are now given to the Medical Assistance (MA) section by the Audit Bureau along with field audit results which identify deficiencies in nursing home accounting systems. These deficiencies are then communicated to the nursing home by the MA section. Unsupported and undocumented expenditures are disallowed by the Audit Bureau when identified through field audit or desk review.

B. Concur:

Standard criteria for determining the reasonables of certain types of expenses claimed are being established. It is expected that this will be an ongoing process and criteria will be established as the needs for standards in certain areas become apparent.

C. Concur:

In August of 1979 action was taken to establish permanent files on nursing homes. It is expected that it will take another year before these files are fully developed and completed.

RECOMMENDATION NO. 8

We recommend that SRS:

A. Work with counties to minimize time delays in filling staff vacancies.

B. Combine and streamline AFDC application and eligibility forms.

C. Review case transfers to ensure that responsible counties are notified on a timely basis.

AGENCY COMMENTS

A. Concur:

The Department processes vacancies as soon as economically feasable, however, it must meet vacancy savings mandate of appropriations.

B. Concur:

During the AFDC manual completion many of the forms; child support assignment, good cause, case transfer, WIN forms, unemployed parent, and referrals were redesigned as more useful forms. Economic Assistance is currently looking at a redesign of the application form within the next six (6) months to a multipurpose form which would include a core application, AFDC section to include child support and WIN information, MA section, FS section, and GA section. The form would include NCR for referral to Revenue, WIN, etc., and would provide informational material of Family Planning, EPSDT, etc. A multipurpose application should streamline the work since the mirade of backup forms could be destroyed. The redetermination form was recently redesigned to streamline the redetermination process for AFDC and MA.

C. Concur:

SRS has recently changed the procedure and recommends that transferring counties hold checks for closure and counties accepting transfer issue new checks when the procedure for transfer does not go through due to mid and late month transfers.

RECOMMENDATION NO. 9

We recommend that SRS:

A. Award grants-in-aid only to applicants that comply with state law and agency rules.

B. Require Butte Silver Bow County to establish and maintain auditable records for its poor fund.

AGENCY COMMENTS

A. Concur:

Grants-in-aid have been, and will continue to be, granted only to applicants that comply with state law and agency rules.

B. Do not concur:

The Department has no authority to control the records utilized by elected county officials. Proper recordkeeping will be encouraged whenever possible.

RECOMMENDATION NO. 10

We recommend that SRS:

A. Require counselors to determine, document, and update client financial status when laws and regulations require financial need tests.

B. Propose legislation to include training as a service requiring financial need eligibility.

AGENCY COMMENTS

A. Concur:

The new manual requires a minimum review of the financial statement at least annually or on financial changes of the client. Training of staff will be accomplished. Implementation date 10-1-80.

RECOMMENDATION NO. 11

We recommend that SRS:

A. Require counselors to close inactive cases promptly.

B. Reassign RSD counselor positions to equalize caseloads between regions.

AGENCY COMMENTS

A. Concur:

This is being accomplished now, the Administrative Assistant reviews computer printouts and follow up for caseload movement. Exception reports in the new computer system will be generated for follow up by central office staff. Peer reviews also effect caseload management.

Implementation date 10-1-80.

B. Concur:

The Helena District has offices in Montana State Prison and at Montana State Hospital at Warm Springs with small caseloads but essential clientele to serve. An FTE from the central office was utilized to add a Counselor in Western Montana and the caseloads of RSD are fairly distributed again.

Implementation date 3-3-80.

RECOMMENDATION NO. 12

We recommend that SRS:

A. Use title retention agreements for all equipment purchased for clients to ensure the return of unused equipment.

B. Maintain inventory records for client equipment purchases.

AGENCY COMMENTS

A & B. Concur:

The form is designed and in use since the last audit. An inventory of client equipment over $200 and a system to ensure Title Retention Agreements has been established.

Implementation date 6-25-80.

RECOMMENDATION NO. 13

We recommend that SRS:

A. Require counselors to complete IWRP's for each client before training is provided.

B. Enforce requirements for annual reviews and revisions of IWRP's.

AGENCY COMMENTS

A & B. Concur:

The new data system will enable central office staff to ensure an IWRP prior to service and an annual review of the IWRP.

Implementation date 10-1-80.

RECOMMENDATION NO. 14

We recommend that SRS provide counselors with training in case management.

AGENCY COMMENTS

Concur:

Training in case management to staff will be provided.

Implementation date 9-17-80.

RECOMMENDATION NO. 15

We recommend that SRS establish a system to identify cases where client employment is unrelated to training.

AGENCY COMMENTS

Concur:

The new data system has a DOT code for training received and for the occupation when employed. This will be the system to monitor placement related to training.

RECOMMENDATION NO. 16

We recommend that SRS:

A. Require counselors to re-evaluate client maintenance needs periodically.

B. Require counselors to update client financial statements periodically.

C. Provide counselors with basic maintenance financial need guidelines.

AGENCY COMMENTS

A & B. Concur:

Program policy (as stated in the counselor manual) directs at least an annual financial evaluation on clients, or oftener if client circumstances change. The financial form signed by the client states that the client has a responsibility to inform the counselor whenever the clients financial circumstances change.

C. Concur:

The Division will establish programmatic guidelines to assist staff in determining income, resources, expenses, and individual maintenance needs.

Implementation date 10-1-80.

RECOMMENDATION NO. 17

We recommend that SRS:

A. Provide book allowances only if financial need is established.

B. Base book allowances on individual client needs.

AGENCY COMMENTS

A & B. Concur:

Is existing agency policy. Staff training will be held to reinforce policy to staff.

Implementation date 9-17-80.

RECOMMENDATION NO. 18

We recommend that SRS complete the R-300 Cases Services Report revision without further delay.

AGENCY COMMENTS

Concur:

New data system will be in place 10-1-80.

RECOMMENDATION NO. 19

We recommend that SRS require counselors to:

A. Document their rationale for choosing long-term college training over shorter training classes.

B. Determine that clients are capable of meeting training goals.

AGENCY COMMENTS

A. Concur:

The new manual will require counselor rationale for college training versus short-term training.

B. Concur:

Diagnostic study guidelines in new manual emphasis determining client potential for training through testing, grade transcripts, etc.

Implementation date 10-1-80.

RECOMMENDATION NO. 20

We recommend that SRS:

A. Closely monitor differences in program unit costs.

B. Review regional requirements and provider contracts to identify and eliminate duplications in services.

AGENCY COMMENTS

A. Concur:

We have been aware that differences in unit costs do exist between providers for the various types of services purchased for individuals who are developmentally disabled. The Division is involved in a thorough study of the types of differences noted in the audit findings. This study will include an analysis of provider cost allocation, budgeting procedures, staffing patterns, training and production activities, and other cost factors which contribute to the differences in program unit costs. One of the activities of the study, currently in progress, is to survey other states to identify reimbursement methods which could be adapted for Montana's needs. The target for the completion of this study and the beginning phase of implementation is July, 1981.

B. Concur:

Duplication of services have and will continue to be eliminated if in the best interest of the individuals to be served.

RECOMMENDATION NO. 21

We recommend that SRS correct the contract process weaknesses described above.

AGENCY COMMENTS

A. Concur:

Federal regulations describe in detail the minimum acceptable methods of allocating costs between programs. The Division will refine these regulations into a procedures manual to be used in the fiscal year 1982 contracting process.

B. Concur:

Significant improvements were realized on turnaround time during the fiscal year 1981 contracting process. However, fiscal year 1982 contract timeliness will be moved forward, requiring contracts to be completed and sent to providers by June 1 of each fiscal year.

C. Concur:

Year-end contract review will be complied with relative to refunds from providers.

D. Concur:

Contracts will be encumbered effective September, 1980.

E. Concur:

Justification and documentation of budget items are the responsibility of the provider to have available on file for review by the Division. The Division will monitor this requirement.

F. Concur:

Close-out instructions are outlined in the Federal regulations. Accrual procedures are also defined. Year end close-out instructions will be furnished to the providers.

RECOMMENDATION NO. 22

We recommend that SRS:

A. Include specific requirements for property records and depreciation in provider contracts.

B. Develop minimum criteria for client attendance records.

C. Monitor providers to assure compliance with recordkeeping requirements.

AGENCY COMMENTS

A. Concur:

Current property records management policies specify instructions for complying with this issue. Depreciation and interest expense regulations will be complied with on fiscal year 1981 contracts.

B. Concur:

The Developmental Disabilities Division will establish minimum criteria for attendance records by October 1, 1980, and will monitor for compliance.

C. Concur:

Bookkeeping requirements relative to auditability, employee time and leave records, and year-end financial reporting requirements will be enforced.

RECOMMENDATION NO. 23

We recommend that SRS include a contract provision requiring department approval of transactions between providers and related parties.

AGENCY COMMENTS

Concur:

A contract provision requiring "prior" approval from the department will be incorporated into the contract language. Federal regulations (45:74:Subpart P) specifies the requirements relative to the "code of conduct" to be complied with in this instance.

RECOMMENDATION NO. 24

We recommend that SRS disallow providers' employee bonuses unless they are included in employment contracts and DDD provider contracts.

AGENCY COMMENTS

Concur:

Costs must be included as a line item in the budget in the contract to be considered allowable. Federal regulations (45:74:Appendix F) provide standards to be applied in establishing allowability of certain items of cost such as employee bonuses within a non-profit organization.

RECOMMENDATION NO. 25

We recommend that SRS develop standard criteria for providers to use when accounting for client funds.

AGENCY COMMENTS

Concur:

SSI funds are administered by the Federal Social Security Administration. Accountability to that agency is required of the providers. Even though we do not control how clients spend their personal funds, we are responsible for monitoring the accountability of all client funds entrusted to the providers. A minimum standard of accounting for client funds will be implemented no later than July, 1981.

RECOMMENDATION NO. 26

We recommend the department obtain a legal interest in improvements to property over which the state has no control, before funding them.

AGENCY COMMENTS

Concur:

This is the current policy of the Division.

RECOMMENDATION NO. 27

We recommend that SRS establish procedures to enable timely licensing of group homes.

AGENCY COMMENTS

Concur:

SRS will be supporting a change in the law which will facilitate the licensing procedure for group homes. The Division will then implement procedures to ensure payments are not made to group homes that have expired licenses.

RECOMMENDATION NO. 28

We recommend that SRS:

A. Require supervisory review and approval of eligibility determinations.

B. Ensure that counties comply with federal regulations concerning redetermination of eligibility.

C. Require counties to determine eligibility of child and family services cases.

AGENCY COMMENTS

A. Do not concur:

It is not feasible or appropriate for Social Services to have supervisory review over every eligibility determination. There are over 10,000 clients in the Social Services' system and supervisory review over every one is not possible. Social Services Bureau will reinforce the need to monitor eligibility determination by supervisory staff on a percentage basis.

B. Concur:

Social Services can do this with the assistance of the ACE System for these DD clients we certify eligibility. However, Social Services does not certify eligibility for all clients.

C. Do not concur:

Social Services staff does not have sufficient staff to certify eligibility for clients of Family and Children's Services. The eligibility process is negotiated at the local level between DDD staff, county staff and providers.

RECOMMENDATION NO. 29

We recommend that SRS develop a standard form to enable social workers to make a proper financial investigation and to assure adequate disclosure of financial resources available to pay for a foster child's care.

AGENCY COMMENTS

Concur:

SRS is currently working with the Department of Revenue to develop a schedule of parental contributions. When the schedule is completed the policies and procedures will be developed and implemented. This will include a standardized form. Implementation date is 9-1-80.

REOMMENDATION NO. 30

We recommend that SRS:

A. Emphasize to social workers the importance of documenting compliance with policies and procedures contained in the Social Services Bureau's manual.

B. Establish a policy requiring the periodic review of case files by either the social worker supervisors or Social Services Bureau personnel, to ensure compliance with bureau policies and procedures.

AGENCY COMMENTS

A & B Concur:

The manual section for substitute care revised on 6-1-79 was the beginning of permanency planning. The project has begun statewide with specific instruction for development of monitoring guidelines. In addition, a system of monitoring will be developed at state level to periodically review cases at the local level.

RECOMMENDATION NO. 31

We recommend that SRS establish rates of payment for group care facilities in compliance with federal regulations.

AGENCY COMMENTS

Concur:

The rate system has been developed and implemented due to a joint effort of group home and child care agency providers and the Social Services Bureau.

RECOMMENDATION NO. 32

We recommend that SRS require timely foster care payroll changes and take action necessary to ensure compliance by county offices.

AGENCY COMMENTS

Concur:

Social Services Bureau and Fiscal Bureau sent out instructions for obtaining the overpayments for the past 1½ years. The instruction also included the amounts for which each County was responsible and the source of the error. Since that time, forms have been processed on a timely basis statewide. Both Fiscal Bureau and Social Services Bureau will continue to deal with payment procedure problems in foster care on a timely basis.

RECOMMENDATION NO. 33

We recommend that SRS develop policies and procedures adequate to ensure that the determination and documentation of AFDC foster care eligibility meets federal requirements.

AGENCY COMMENTS

Concur:

The policy on AFDC foster care is the same in both AFDC manual and the Social Services Bureau manual. Training took place across the state concerning this policy.

RECOMMENDATION NO. 34

We recommend that SRS:

A. Review the day care payment rates to determine if they adequately cover operating costs of day care operators.

B. Develop appropriate policy changes within the federal guidelines limiting the number of children facilities may serve at one time, or enforce the current restrictions.

C. Provide all day care facilities with a current copy of the day care program policies and procedures.

AGENCY COMMENTS

A. Concur:

B. Concur:

C. Concur:

The Program Manager with day care responsibility has recently surveyed a sample of the day care providers throughout the state to determine the going rate for day care. A survey has recently been sent to a sample of parents to determine their needs. In addition the department has developed revised standards which are currently being shared with providers for their input. A report summarizing pertinent information will be provided by mid August by the Title XX coordinator. This report will address the current issues in day care. Decisions will be made after the report has been submitted.

SRS will seek changes in the law to include registration of day care facilities. This change will assign the responsibility of compliance with standards with providers with a percentage of facilities being monitored. Currently, SRS does not have sufficient staff to visit all facilities more than once a year.

The copies of the revised standards will be sent to day care providers after the hearing on the standards. Expected date is December 1, 1980.

RECOMMENDATION NO. 35

We recommend that SRS include provisions in provider contracts precluding the family planning centers from soliciting client donations.

AGENCY COMMENTS

Concur:

Although staff in SRS was completely unaware of this procedure, provisions in the FY 81 contract will preclude family planning centers from soliciting client donations.

RECOMMENDATION NO. 36

We recommend that SRS:

A. Change the language of the Application for Title XX Services to specifically grant SRS the authority to verify applicants' incomes with the Department of Revenue.

B. Require family planning centers to verify Title XX applicants' reported income or income maintenance status.

AGENCY COMMENTS

Do not concur:

The declaration method if properly used will reveal accurate information about client's income. The declaration method uses the prudent principle which asserts that the client will and can give accurate income information without the need to verify the income.

In addition, changing the eligibility process with one contract providor would necessitate a complete change involving all Title XX contracts.

RECOMMENDATION NO. 37

We recommend that SRS develop a reporting and review process adequate to assure responsible grant administration by the area agencies.

AGENCY COMMENTS

Concur:

The Aging Services Bureau presently has a monthly review system for financial and project activity reports which was in place at the time of the audit. Since the over-expenditures by the Area Agency nutrition project, the Bureau has instituted an additional inter-office report which monthly indicates the meals provided, funds expended and commodities used against the percent-of-time of the grant. Additionally: Quarterly assessments conducted by the Bureau include more in-depth financial reviews and the Bureau has planned a schedule of in-depth fiscal reviews of Area Agencies and selected projects to be conducted during FY 81 by the SRS Audit Bureau.

RECOMMENDATION NO. 38

We recommend that SRS develop and communicate to providers minimum procedures necessary to determine participant eligibility.

AGENCY COMMENTS

Concur:

Since the Aging Services Bureau (ASB) no longer receives Title XX funds, the sole eligibility requirements is the age sixty (60) for services under Title III-C of the Older Americans Act. This requirement has been communicated to all area agency directors and a number of service providers. This will also be reviewed by ASB staff during quarterly assessments.

RECOMMENDATION NO. 39

We recommend that SRS:

A. Monitor senior center grants to assure that deviations from the original grant receive prior approval.

B. Transfer title of the above equipment from the senior center to the area agency to properly reflect usage.

AGENCY COMMENTS

Concur:

A. Additional, deviations are allowed up to 10% in each line item within a grant without ASB approval. However, both area agencies and service providers have been reminded that final financial reports must be completed to reflect accurate expenditures per grant and Notice of Grant Award prior to receiving funds on new or continuation grants.

B. Documentation has been requested from the Area Agency and Senior Center requesting documentation on the proper ownership inventory list and usage of the equipment.

RECOMMENDATION NO. 40

We recommend that SRS:

A. Require aging services projects to maintain accounting and property records adequate to document financial reports.

B. Require aging services projects to report all receipt and disbursement activity.

C. Monitor area agencies and projects to assure compliance with recordkeeping and other requirements.

AGENCY COMMENTS

Concur:

A, B, and C: The reviews conducted by the SRS Audit Bureau will include recommendations to be implemented areawide by all projects as applicable. Completion of these recommendations will be monitored by ASB staff during quarterly assessments.

RECOMMENDATION NO. 41

We recommend that SRS maintain duplicate systems and operational documentation at an off-site location for significant departmental data processing systems.

AGENCY COMMENTS

Conditionally Concur:

We concur with the concept of offsite storage for documentation backup but question the need for all systems to be duplicated. The duplication of system documentation for small minor systems is an unnecessary expense. If destroyed, reconstruction, for the most part, can be accomplished via program, user and operational documentation. This documentation, in addition to being accurate, would be current and available at multiple locations within SRS and the Department of Administration. Backup documentation stored offsite, unless updated on a regular basis (which is a time-consuming and expensive process), would not be current since it would not contain recent system or processing changes. Reference to programmer, user and operational documentation would still be required. Based on the above, the Department is currently reviewing its DP systems and will establish offsite backup systems documentation on a selected basis.

RECOMMENDATION NO. 42

We recommend that SRS require the use of dollar control totals in the MIMS system.

AGENCY COMMENTS

Conditionally Concur:

We concur in principle; however, it is not feasible at this time. The MIMS System was transferred to Montana from Utah with a significant lack of documentation. The personnel who were responsible for its implementation are no longer with the Department. In order to implement this recommendation, certain system modifications would be required. Because of the lack of adequate system documentation, system modifications necessary to support this recommendation are not considered feasible at this time. The new MIM System, which is currently under development, will contain enhanced document processing controls.

RECOMMENDATION NO. 43

We recommend that SRS implement procedures to correct the internal control weaknesses noted above.

AGENCY COMMENTS

The Legislative Auditor's review of internal control formed the basis of their determining internal control weaknesses. As noted by the Legislative Auditor's report, internal control is to provide reasonable, not absolute, assurance. The determination of what is reasonable is where we differ with some of their recommendations.

Employee Leave

1. Concur:

The Department is in the process of implementing a computerized leave accounting system. The system should help eliminate computational erros.

Expenditures

1. Do not concur:

The warrant writing process has many built-in control features. Before warrants are produced, documentation must be input into the system. This documentation is the authorization for generating a warrant. For warrants produced on the AFDC system, a warrant listing is furnished from the MIM system to the Auditor's Office. This listing reflects the numbers of the warrants that are to be prepared from preprinted stock. The Auditor's Office produces the warrants, and warrant information is then compared to the MIMS warrant listing for accuracy. Warrant numbers must be exact before warrants are released. All warrants are then placed in envelopes and mailed. If an individual does not receive a warrant when they should, the Department is notified. This insures all warrants written are mailed.

2. Do not concur:

Documents containing changes to the AFDC warrant producing system are reviewed prior to their being entered into MIMS. This review minimizes the risk of improper information entering the system. After data is entered into the system, a monthly warrant listing is generated and mailed to counties. Counties then review the information on this list for accuracy and report errors to the Fiscal Bureau before the warrants are mailed. This process is, in actuality, a reconciliation of changes. In addition, all AFDC warrant detail runs are reconciled to the summarized totals.

3. Concur:

The duties of processing AFDC warrants and writing checks on the Contingent Revolving Fund have been assigned to two different individuals.

4. Concur:

Written procedures for all Fiscal operations will be developed on an ongoing basis. Because of the frequent changes in procedures and Federal Regulations, a completion date cannot be forecast with any degree of accuracy. This particular item has been taken care of via remote data entry of TWC's.

5. Concur:

Accural documentation will be kept with the estimated accrual forms for FY 80 and will be kept this way in future years. This will facilitate easy review and not require looking at other files.

6. Concur:

Transfer Warrant Claims are prenumbered by the printer and, due to an error in ordering these forms, duplicate numbers occurred. The duplication of numbers occurred for only about one month and did not cause any significant internal control or processing problems. Remote entry of SBAS documents eliminates the need for prenumbered claims; therefore, the problem should not recur.

7. Conditionally Concur:

A current list of persons authorized to sign purchase orders and supply requests is now being maintained in the Purchasing Section. The list of persons authorized to sign travel claims was not intended to be maintained on a current basis but only as a periodic check. The travel clerk is familiar with those authorized to sign travel claims and the list will be updated periodically and when a new travel clerk is assigned.

Accounts Payable

1. Concur:

Monthly reconciliations are now being performed.

2. Concur:

Reconciliation of the protective services program will be completed by July 15, 1980 and will be reconciled on a monthly basis hereafter.

Inventories

1. Concur:

Current insurance coverage amounts to 8 million dollars and any amount over that in storage will be covered by additional insurance.

Plant, Property and Equipment

1. Concur:

A physical inventory of personal property will be completed July 31, 1980. As of June 30, 1980, it is 95 percent complete. Items over $200 will be entered into PAMS. A computer system to account for items over $25 but less than $200 will be operational by January 1, 1981.

2. Concur:

All SRS property will have been tagged by July 31, 1980.

Data Processing

1. This recommendation relates to file access in the online MSS System. This system was discontinued in 1979. We will, however, assure that as new online systems are developed, system and data security will be developed to insure access is limited to authorized individuals. New terminals recently installed have been equipped with security key locks.

2. We have requested the Department of Administration to notify us of any attempted signon irregularities on a requested basis.

Food Stamps

1. Concur:

The department will encourage Counties to use pre-numbered receipts.

RECOMMENDATION NO. 44

We recommend that SRS:

A. Analyze the balance in the deferred accounts receivable account and make adjustments for accounts that are incorrectly recorded.

B. Periodically bill amounts due the department.

C. Prepare an aging schedule for detecting old and inactive accounts.

AGENCY COMMENTS

Concur:

A. Accounts receivable detail is being further analyzed. The Accounts Receivables master files are being adjusted to reflect proper amounts due. This master file is maintained on our System 32 in the Word Processing Center. SBAS files will be updated annually to reflect the yearend account receivable balances by category.

B & C. The subsystem, as programmed on the System 32, generates timely billings for accounts and assists in the aging of receivables.

RECOMMENDATION NO. 45

We recommend that SRS analyze the balance in the travel advance account and make appropriate transfers to the other prepayment account.

AGENCY COMMENTS

Concur:

The travel advance account has been analyzed and inappropriate amounts charged thereto, as noted by the Auditor, have been transferred to the proper control account classifications.

RECOMMENDATION NO. 46

We recommend that SRS:

a. Update the authorized check signer list maintained by the bank.

B. Maintain an accurate and dated authorized check signer list at the Fiscal Bureau.

AGENCY COMMENTS

Concur:

Lists of authorized check signers are being updated and an accurate and dated check signers' list will be maintained at both the bank and in the Fiscal Bureau. This updated list will be completed by August 15, 1980.

RECOMMENDATION NO. 47

We recommend that SRS allocate a portion of its administrative costs to the Developmental Disabilities Planning and Advisory Council.

AGENCY COMMENTS

Concur:

This will be incorporated into the Cost Allocation Plan for FY 81.

PRIOR AUDIT RECOMMENDATIONS

The Department has and will continue to work on prior and current audit recommendations. The vast majority are or have been implemented since the audit was completed. The remainder in which we concurred will be implemented as soon as feasible.

Hancock/Dikewood Services, Inc.

A subsidiary of John Hancock Mutual Life Insurance Company

ROBERT J. FLANAGAN
SENIOR VICE PRESIDENT

June 27, 1980

Ms. Ellen Feaver
Deputy Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

Dear Ms. Feaver:

This is in response to the Dikewood report section, which you provided to us by your letter dated June 17, 1980. We have reviewed the draft report and wish to submit the following comments on the items cited under "Recommendation #2:"

Item A - This action can only be taken by SRS by making it a contractual requirement. The recent RFP, in fact, contained this requirement.

Items B & C - We have taken the necessary corrective actions on these items, as described in the attached internal memorandum.

Item D - We have been working for some time to improve program (software) documentation. In particular, a Program Hierarchical Directory is approximately 90% complete. When completed, it will contain a listing of all routines used in the Montana Medicaid Program. It will show interdependencies amongst the numerous routines, when created, by whom, date last accessed, etc. This Directory will go a long way toward providing a complete program documentation package.

Item E - As discussed during the audit, we at one time did, in fact, have provisions for off-site back-up tape storage. We found this arrangement extremely hard to manage. We since changed to storing the back-up tape in a vault in our facility. We feel that this provides the necessary safeguard for these tapes, and so far, we have had no problem in convincing our customers of this. If you desire, we can provide you with the vault specifications.

(505) 243-9781 / 1009 Bradbury Drive, S E / Albuquerque, New Mexico 87106

Item F - We have never seen the need to retain problem claim lists after they have been worked. The claim file contains the data needed to identify claims that had prepayment problems. This data can be easily retrieved from the active claim file. We fail to see the practicality of storing paper that contains information that is readily accessible from the active claim file.

If you have any questions on this matter, please don't hesitate to call.

Sincerely,

R.J. Flanagan

RJF:cjt

Attachment

cc: Greg Durand

montana foundation for medical care
2717 AIRPORT WAY HELENA MONTANA

July 14, 1980

RECEIVED
MONTANA LEGISLATIVE AUDITOR

Ellen Feaver
Deputy Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT 59601

Dear Ms. Feaver:

Thank you for the copy of the Foundation report section of the Legislative Audit Committee report of the Department of Social and Rehabilitation Services for the fiscal year 1978-79.

We have reviewed it carefully and in response to your observations and recommendations we submit the following comments for your attention and for the record:

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Up to January 1980, the Foundation received the "500 disposition" screening list approximately twice monthly. No codes were changed unless hard copies of claims were pulled for further examination. Since each Relative Value Schedule code has an established unit value or a specified percentage value for "by report" procedures, we fail to see how an overpayment can occur unless through computer error.

Personnel at the Foundation cannot arbitrarily make major changes in codes unless the claims are submitted to the peer review process. However, if there is an error in coding by the provider which is accompanied by a complete description of the services rendered, an appropriate code may be inserted for correct entry into the computer.

In the past, coding errors which were not corrected occurred primarily with relation to the age of the patient, i.e. infant, young child, adolescent, adult, etc. These would have required numerous phone calls to the providers in order to change which we were not staffed to handle. If the charges were less than or equal to the value of the correct code, the codes were not changed and overrides were made. If the charges were more than the correct code would have allowed, the codes were changed accordingly. Providers have since been notified that when obvious coding errors occur pertaining to the patients ages these codes will be changed without prior notification.

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It would have been physically impossible to pend all "by report" procedures due to the volume. If procedures valued greater than $150 have gone through the peer review process previously and been approved for similar dollar amounts, future claims for the same procedure were then automatically set for payment if there were no other questions pertaining to the services. One factor that should be taken into account in the screening of claims is "human judgement". It is entirely reasonable to expect that experienced screeners can determine from the information on the claim that in certain circumstances, i.e., severe trauma due to accidents or burns, the charges were appropriate and reasonable under a certain limited dollar amount. All questionable claims are always submitted to the peer review process.

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Peer review tabulation and aging reports are submitted monthly to the Department of Social and Rehabilitation Services. These reports indicate the number of claims pended for review each month, the number "in house" and the number returned for payment.

We trust the above comments will serve to clarify any misconceptions or concerns your committee may have had regarding the operation of the Foundation in the area of claims processing and that you will incorporate them or make adjustments accordingly in your final report.

We don't feel a meeting with your committee is necessary at this time; however, if you have any further questions we will be most happy to meet with you. If we can be of assistance to you in the future, please don't hesitate to contact us.

Sincerely,

Annabelle Richards, R.N. for

Charles D. Hundley, Ph.D.
Executive Director

CDH/ardb